HYPO NOE GRUPPE

ANNUAL REPORT 2016

GROUP FINANCIAL HIGHLIGHTS

EUR '000	2016	2015
IFRS consolidated statement of comprehensive income		
Net interest income	124,439	130,840
Credit provisions	-7,789	1,171
Profit before tax	**93,430**	**11,659**
Income tax expense	-23,432	-5,255
Profit attributable to owners of the parent	**69,820**	**6,152**
IFRS consolidated statement of financial position		
Total assets	15,392,051	15,895,645
Loans and advances to customers	10,854,932	11,557,287
Debts evidenced by certificates	7,698,831	8,165,837
Equity (incl. non-controlling interests)	647,368	581,479
Consolidated capital resources in accordance with CRR/CRD IV		
Eligible core capital	604,533	530,256
Total eligible core capital	632,730	597,675
Risk-weighted assessment base for credit risk	3,265,067	3,485,514
Capital requirement	295,994	315,497
Surplus capital	336,736	282,178
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	16.34%	13.45%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR – fully phased in	16.78%	14.05%
Total capital ratio in accordance with Art. 92(2)(c) CRR	17.10%	15.16%
Total capital ratio in accordance with Art. 92(2)(c) CRR – fully phased in	17.53%	15.70%
Operational information		
Number of employees at year-end	863	940
Number of branches	27	30
Selected payments/levies/items in respect of public authorities		
Financial stability contribution (bank tax)	-14,900	-14,704
Dividends paid to the State of Lower Austria	-2,000	0
Guarantee costs paid to the State of Lower Austria	-321	-567
Income tax paid	-11,228	-11,233
Current income tax	-20,511	-2,585
Deferred income tax	-2,921	-2,670
Social security contributions and other pay-related contributions	-13,260	-13,407
Current tax assets	20,333	19,653
Deferred tax assets	1,443	2,105
Current tax liabilities	20,127	10,073
Deferred tax liabilities	36,955	34,434
Key indicators		
Return on equity (ROE) before tax	15.2%	2.0%
Operating return on equity before tax[1]	18.5%	5.6%
Return on equity after tax	11.4%	1.1%
Cost/income ratio	56.0%	92.5%
Operating cost/income ratio[1]	46.3%	77.3%

1) 1Change in calculation in 2016: operating CIR and operating ROE include the costs of contributions to the deposit insurance fund; the figures for the previous year have been adjusted.

GROUP OPERATIONAL AND FINANCIAL REVIEW 2016

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ECONOMIC CLIMATE

Global economic and financial market developments

On reflection, 2016 was strongly influenced by political events and, once again, by central bank policy decisions. At the start of the year, all eyes were on the capital markets owing to concerns about growth in emerging economies such as China. Commodity prices reached new cyclical lows and the already-expansive fiscal policies in place at the time were loosened further still. Measures taken to stabilise the Chinese economy led to a more positive environment in the early part of the year. The unexpectedly negative outcome of the United Kingdom's referendum on its continued membership of the European Union buffeted capital markets in June. The Brexit decision was followed by a short-lived military coup attempt against the Turkish government in July. Both the capital markets and the real economy were relatively quick to recover from these events, which ultimately had little or no negative effect on the wider business environment. The latter part of the year was shaped by the presidential election in the United States, which saw Donald Trump elected the nation's 45th president. While the consensus before the election was that a successful campaign by Trump would initially have a negative impact on stock markets while bolstering bond markets, the opposite was proving to be the case just a short time after the results were announced.

The subdued performance of the US economy and persistently anaemic growth in emerging economies in the first half of the year meant that the global economy grew at only a moderate pace once again in the year under review. Negative economic data coming out of China dominated the headlines at the start of the year. For a considerable time the soft landing targeted by the government in Beijing, defined as growth of 6.5-6.7% in 2016, appeared to be out of sight. But an economic stimulus package initiated by the government and central bank at the turn of 2015/16 helped to stabilise the economy as the year progressed. Debt continued to rise appreciably and is seen as weighing on growth in China over the medium term, while the health of the United States economy will play a considerable role in this development. After an initial phase of weakness in the first half of the year, when average growth amounted to 1.2%, the US economy rebounded, picking up pace towards the middle of 2016. By the third quarter, growth had accelerated to reach an extrapolated full-year rate of 3.5%. At the same time, employment continued to rise, which was reflected in an unemployment rate of 4.6% – a new cyclical low – in November. Coupled with full employment and the upward trend in wages and salaries, there were already indications of inflationary pressure at this point.

Buoyant consumer and producer prices are compounded by an upturn in commodity prices. Inflation climbed from 0.1% at the start of the year to 1.7% in November. Given the statistical base effects, this trend is expected to continue in early 2017. The US Federal Reserve (Fed) responded to this development in December, raising the base rate for the second time in 12 months, by a quarter of a percentage point, from 0.5% to 0.75%. Although this move had been expected for some time, the Fed made a surprise announcement following its last meeting that for the first time in years it would be revising its interest rate forecasts upwards, raising the possibility of three separate hikes over the coming year.

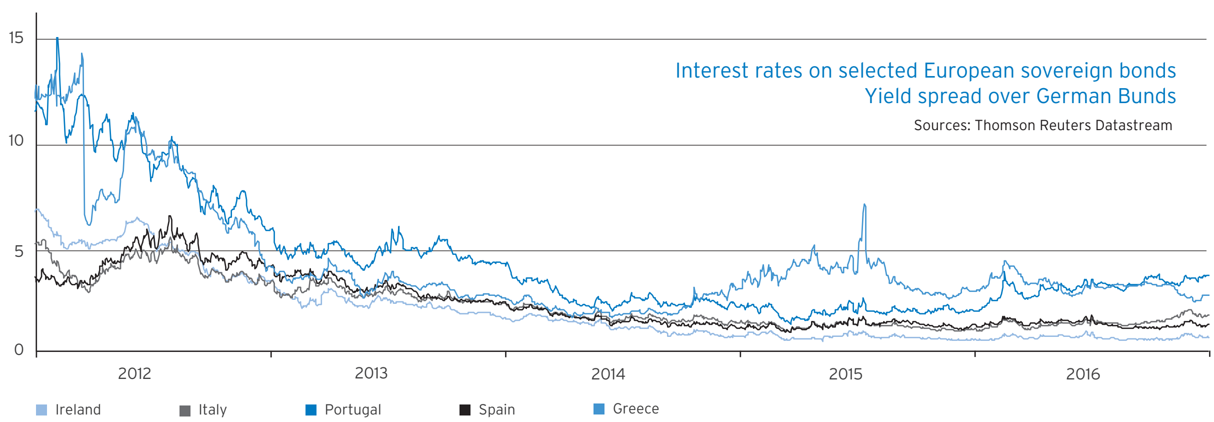
In light of the political upheaval outlined above, as well as the negative outcome of the 2016 Italian referendum on constitutional reform, economic developments in the eurozone were highly satisfactory. Conservative estimates put growth for the year at 1.6%, making 2016 the third year in succession in which output exceeded the projected long-term growth potential of 1.0%. In Austria the tax reform that entered into force at the start of the year was the main factor that led to growth doubling to around 1.6%.

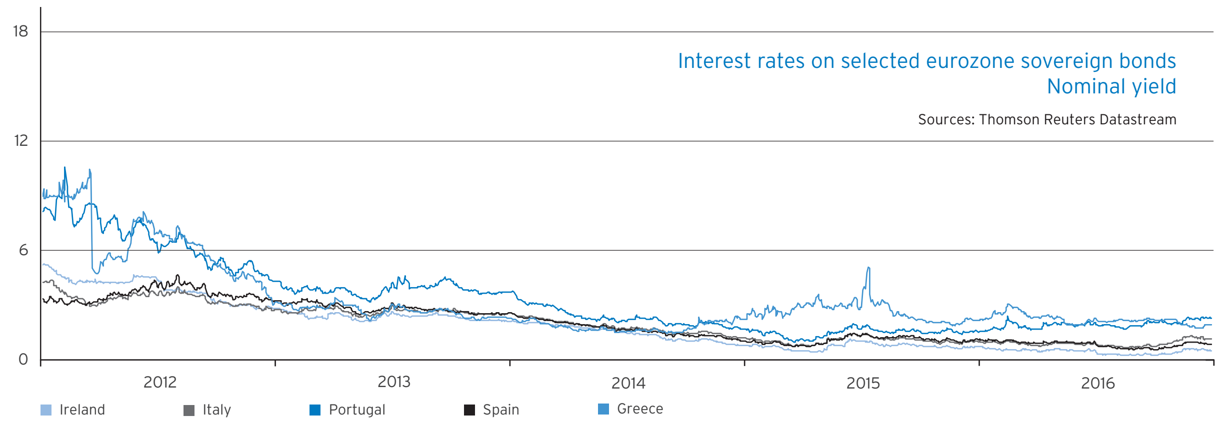
Employment continued to rise in the eurozone as the year progressed, and unemployment fell slightly, from 10.4% to 9.8%. Inflation, however, was significantly below the European Central Bank's target rate, despite the ECB's expansionary monetary policy, with declining commodity prices since the start of the year a key factor once again. It was not until the end of the year that the inflationary situation began to brighten, when the rate rose to 0.6%. Statistical base effects are also taking hold in the eurozone – a sign that the rate of inflation during the year ahead will significantly outpace that of 2015 and 2016.

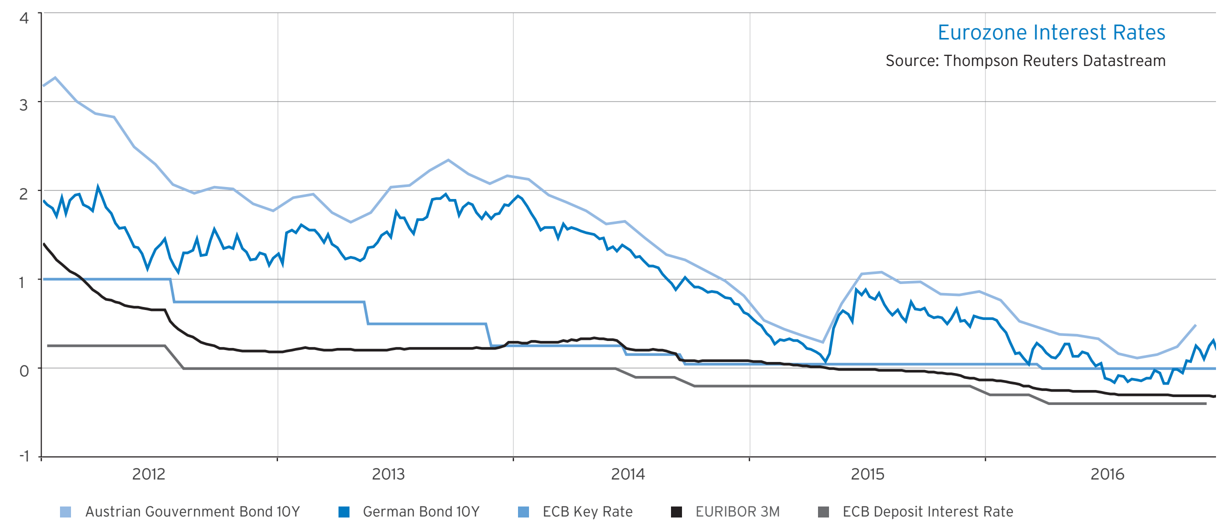
In contrast to the Fed, the European Central Bank is not expected to put up interest rates in the near term, even though there were indications at its meeting in December that the ECB was taking its first tentative steps towards gradually abandoning its loose monetary policy. Although the current quantitative easing programme was extended until at least the end of 2017, the monthly asset purchase programme will be scaled back from EUR 80 billion (bn) to EUR 60bn from April 2017.

European bond market

In 2016 yields on the bond market hit a new all-time low. On the global bond markets, trading in bonds with negative yields reached record highs in the year under review. It is estimated that bonds with a face value of EUR 11 trillion (trn) and a yield of less than 0% were traded worldwide this summer, primarily in Europe and Japan. Despite moderate global growth, the major central banks felt compelled to extend or expand their low or negative interest rate policies due to the very low rate of inflation. In particular the monetary policies of the ECB, which extended its bond repurchase scheme in 2016 to corporate bonds, and the Bank of Japan influenced yields on international bond markets. As a direct result of the Brexit decision in the United Kingdom, the Bank of England cut its base rate – for the first time since 2009 – from 0.5% to 0.25% and launched a security purchase scheme with a planned new volume of GBP 70bn, which fuelled the deterioration of bond markets internationally, particular due to the resulting scarcity of fixed-income securities. The European bond market performed very well until the start of summer, with moderate setbacks only emerging towards the end of the year. Rising commodity prices and – after a delay – higher inflation, as well as the outcome of the US presidential election were among the contributory factors. The new US administration under President-Elect Trump gave rise to hopes of measures aimed at stimulating growth, presumably at the cost of greater debt. This led to tangibly higher yields in the USA in the final few weeks of 2016, which also spread to European bond markets, albeit in a less pronounced form. The broad Bloomberg/EFFAS euro sovereign bond index ended the year with a satisfactory performance of 3.2%, and the Barclays Euro Corporate Index put on 4.6% (as at 26 December 2016).

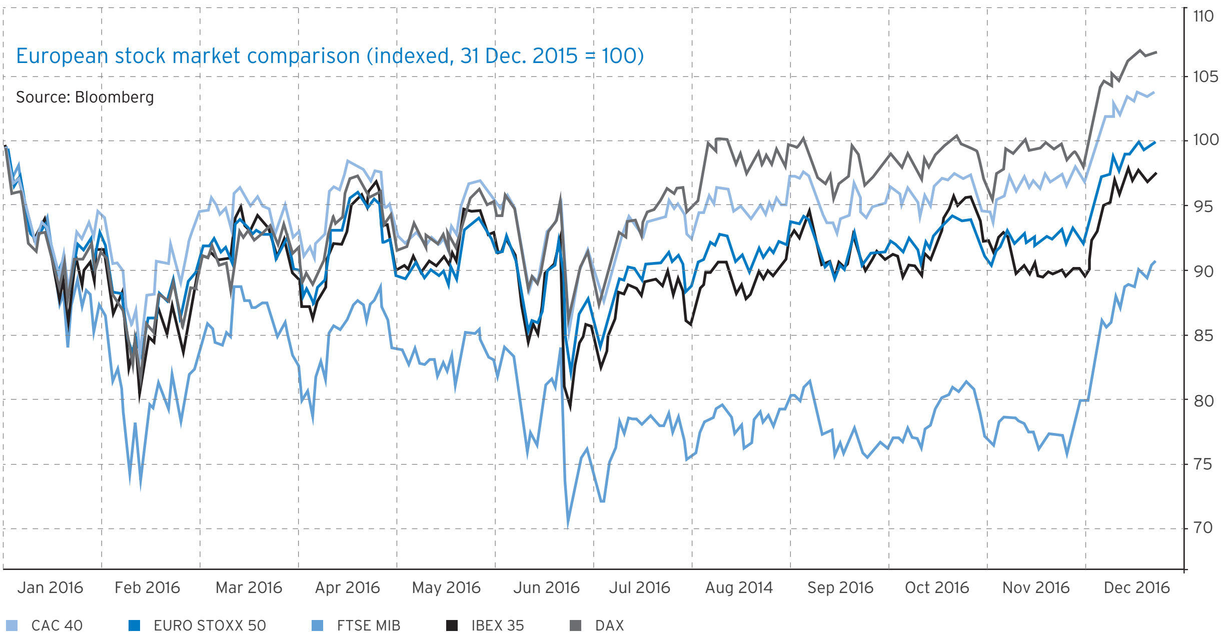






European equity markets

At the start of the year, developments on international equity markets were likewise dominated by the drop in the price of commodities and weak growth in emerging economies. Over the first few weeks of 2016, a number of major share indices in Europe lost more than 20% of their value. The central banks went a long way towards restoring stability by further loosening monetary policy. Historically low bond yields failed to provide an alternative for investors, meaning that capital quickly flowed back into equity markets. During the course of the year, the global economy showed signs of recovery and commodities markets started to reverse the prevailing trend at the start of the year. Unfavourable political developments in Europe no longer had a lasting negative impact on the improved investor sentiment seen on equity markets over the previous months. Encouraging profits in the corporate sector and, in some cases, attractive dividend yields were strong arguments for investing in stocks and shares. Due to the collapse in prices at the beginning of the year, many companies' shares traded at less than their opening price throughout 2016 despite rallying



in the spring. No significant impetus emerged on the stock markets until after the announcement of the US presidential election result. US indices in particular closed 2016 on a high, fuelled by the prospect raised by Trump of an expansive monetary policy and the positive effect that it was hoped such a move would have on growth and company profits. While indices in Europe lagged behind, 2016 came to an upbeat conclusion on the continent's bond markets, given the difficult start to the year and the adverse political climate.

Economic trends in the HYPO NOE Group's core markets

AUSTRIA

In mid-December 2016 the Oesterreichische Nationalbank (OeNB) reported that the Austrian economy had grown by 1.4% in 2016 (eurozone: 1.6%, EU-28: 1.9%). After four years of sub-1% growth, the nation's economy has now picked up speed again. The economic upturn has since fed into the labour market, as reflected in an appreciable increase in the number of full-time jobs. That said, the Eurostat outlook puts unemployment at 6.1% as at year-end 2016, up from 5.7% due to the latest influx of immigrants, among other factors. At 0.9%, inflation held at a relatively low level during the year, but is set to increase to 1.8% by 2019 according to the OeNB.

Private consumption, the main driver of growth, rose for the first time in three years, not least due to the effects of the recent tax reform. At the same time the saving rate went up from 7.3% to 8.9%, which, given weak interest rates, is clearly a response to the wider geopolitical situation.

With an increase of 6.1% year on year, Austrian companies significantly scaled up capital investment during the reporting period. The construction industry seems to be coming out of crisis, and the modest growth recorded at the end of 2015 continued during the year under review. In this regard, it is worth noting that construction of new residential properties has increased, but measures implemented under the government's housing construction initiative have so far failed to have an effect.

Foreign trade benefited from stable economic growth in Europe. Goods exports to the eurozone by Austria increased steadily throughout the year, while export activity outside the European Union contracted, particularly with the Russian Federation, the USA and Turkey. The Austrian tourist industry reported record results during the summer season. At 2.3%, export growth in 2016 fell slightly short of the previous year's level.

The budget deficit fell to 1.1% thanks to the latest GDP revision. Higher spending on security and costs relating to the refugee crisis are expected to lead to a deficit of 1.6% in 2016 as things stand. Thanks to the resolution of the Heta situation in 2016, it can be assumed that government debt will fall somewhat in the medium term (target: 77.5% by 2019).

FEDERAL STATES

Austria's federal states reported growth of between 1.2% and 2.4% in 2016, a significant increase compared to the previous year. Economic growth was 1.4% in Lower Austria and 1.2% in Vienna. The economies of Burgenland, Carinthia, Vorarlberg and Salzburg were among the fastest growing in 2016 due to significant increase in the tourism and manufacturing industries. Lower Austria and Upper Austria achieved the highest year-on-year gains, with growth amounting to around 2.5% for each, primarily due to expansion in the services industry.

There is a clear trend towards debt reduction by the Austrian state governments, with aggregate debt including guarantees down by almost 10% since 2014. Guarantees (including bank guarantees) by the federal states have declined by an aggregated 30.7% since 2009, to around EUR 52bn. This trend will become even more pronounced in the 2016 and 2017 accounts as state government-backed bonds mature.

As at 31 December 2015, Lower Austria had explicit debt of EUR 3.6bn or EUR 2,213 per capita in the form of financial debt in accordance with the Voranschlags- und Rechnungslegungsverordnung (Budget and Accounts Order). Also at year-end 2015, guarantees in the form of assumed bank guarantees amounted to around EUR 10.4bn – a significant reduction since 2011, when the total amounted to EUR 13bn. 43% of Lower Austria's current guarantees are attributable to the state's liabilities in connection with subsidised home loans sold over the past few years. However, in light of the high granularity of the individual loans, which are secured against the land register, these guarantees represent a very small risk for Lower Austria. As at 31 December 2015, 38% or EUR 3.96bn was accounted for by state-backed bonds issued by HYPO NOE Group, the majority of which will mature by September 2017 and result in a significant reduction in Lower Austria's overall guarantees of 40% compared with the end of 2015. Debt including guarantees (explicit financial debt and implicit debt in the form of state guarantees in accordance with debt and guarantee records under the Budget and Accounts Order) are expected to decline from EUR 14bn at the end of 2015 to around EUR 10bn at the end of 2017, a drop of some 29%. On a per capita basis, this equates to a reduction from EUR 8,629 to around EUR 6,200 at year-end 2017. There was a clear improvement in the state's operating performance, with the 2015 accounts showing a higher operating surplus and available funding; the statutory stability goals were exceeded.

In terms of assets, Vienna leads the way in a comparison of the Austria federal states, followed by Lower Austria. More than a third of Lower Austria's assets, or EUR 5.6bn, is accounted for by subsidised home loans, which are – as borne out by previous transactions – highly utilisable and secured against the land register. Income from the sale of subsidised home loans is primarily invested in various schemes, including the Generationenfonds fund, and are not assigned in their entirety to the state budget. Compared with other federal states, Lower Austria has significant reserves.

Lower Austria and Vienna – HYPO NOE Gruppe Bank AG's core markets – are also the Austrian federal states with the highest forecast population growth up to 2075, and still boast the highest average gross income among the employed. Lower Austria moved into first place in terms of purchasing power per inhabitant in 2013, a position it has successfully defended ever since. The state is followed by Salzburg and Vienna. The federal states of Lower Austria and Vienna remain those with the highest shares of national GDP, at 16% and 26% respectively.

On 7 November 2016 the partners in the fiscal equalisation system reached an agreement on distribution from 2017. The major changes for the 2017-2021 period include a one-time reimbursement of costs to federal states and municipalities amounting to EUR 125m to cover additional expenses for immigration and integration, as well as an annual amount of EUR 300m to cover additional expenditure, primarily relating to healthcare, care and social services.

DANUBE REGION

According to forecasts from autumn 2016, most of the countries in the HYPO NOE Group's extended core market – with the exception of Germany – will again record growth well above the EU average this year. Romania saw the strongest growth in the Danube region, at 4.8%. This was primarily driven by a VAT reduction and a significant increase in the minimum wage. Growth in the other economies in the region is expected to range from 2.0% to 3.2%. Private consumption – supported by increases in real wages – is still the driving force behind growth in the Danube region. Lending to private households increased by 5-8% in all countries in the Danube region with the exception of Hungary. However, lending to businesses in the region only increased in Poland and the Czech Republic. In some cases, the decline in lending to companies is a sign of one-time effects resulting from efforts to reduce non-performing loans (NPLs), but it can often also be explained by companies drawing on their reserves. Public-sector investment was subdued across the board in 2016, with the exception of Poland, even though the significant decline in public refinancing costs has increased the incentives to implement more expansive fiscal policies and invest in infrastructure projects. Faltering public-sector investment could start to bounce back as early as next year since investments subsidised by the EU ought to make themselves felt in full from 2017 onwards, following a sluggish start to the programme in 2016.

The latest forecasts for 2017 and 2018 point towards consistently high growth across the Danube region. In terms of trade links, the possible implications of Brexit are only expected to have a minimal effect on the Danube region, as exports to the United Kingdom average just 1.6% of GDP. As a share of total exports, the figures range from 3.3% for Bulgaria to 6.3% for Poland.

Banking sector trends in the eurozone and CEE

Driven by tighter regulatory initiatives, European banks have steadily increased their equity ratios over the past few years and, in doing so, improved their credit ratings. Persistently low interest rates continue to weigh heavy on banks' earnings, with traditional business models stretched to their limits. So far, banks have been able to respond to falling market and central bank interest rates in their retail business, but have come under increasing pressure since nominal rates of interest turned negative. While Anglo-American investors and debtors make much more use of the capital markets, deposits and bank loans play a dominant role in Europe – around 60-70% of earnings are generated through net interest income. In addition to the tense interest rate situation, banks will have to contend with increased regulatory costs, increasing competition from non-banks and the huge investment required to bring digitalisation up to standard. All of these factors will have far-reaching consequences, both for sales and for internal processes, and will pave the way for efficiency gains and improving profitability.

The results of the European Banking Authority (EBA) stress test published at the end of August did not contain any major surprises. A total of 51 banks, including 37 from the eurozone, took part in the test, which assessed the resilience of EU banks against a common macroeconomic baseline and an adverse scenario. Due to the generally strong initial capitalisation, these scenarios would only pose difficulties for a few banks. In December 2016 the EBA announced that the next stress test would be conducted in 2018. The poor performance of Italian banks in the 2016 test came as little surprise, with the nation's banking sector still in crisis owing to its relatively high level of NPLs and failure to implement the necessary restructuring measures. For some time the Italian government has been working on a solution to the problem that would enable it to restructure the sector without the measures being classified as state aid under the EU Bank Recovery and Resolution Directive (BRRD). In April the government agreed to establish the Atlante bank bailout fund. After propping up two banks, the government passed an emergency directive in December, which provides for an additional EUR 20bn rescue fund to stabilise the Italian banking sector.

The bank stress test conducted in the United Kingdom in December was almost eclipsed by the Brexit referendum. While the country was repeatedly confronted with accusations of adopting a relatively hands-off regulatory approach in the years before the crisis, the nation's bank regulation systems have been restructured and its banks undergo yearly stress tests, among other measures. In the latest Bank of England (BoE) stress test, the focus was on national and global risk factors. The seven largest institutions, which together account for around 80% of outstanding loans to the real economy, were tested. The Royal Bank of Scotland was the only institute that fell short of the requirements. The partially state-owned bank requires additional capitalisation of around EUR 2.3bn if it is to weather another financial crisis. While there is no acute need for additional capital at present, talks with the local regulator regarding measures designed to close the gap are already in progress. In addition to continued uncertainty in UK banking sector, negotiations between the country and the European Union will also determine London's future as a financial centre in Europe.

Muted economic growth and the current phase of low interest rates are both defining features of a persistently challenging economic environment. As with European competitors, interest margins are coming under increasing pressure and affecting operating profits. As a result the Austrian banking sector is currently going through a period of structural upheaval. Two major Austrian banks have already announced major restructuring projects. In contrast to the merger already approved by Raiffeisen Bank International (RBI) and Raiffeisen Zentralbank (RZB), the realignment of Bank Austria will be determined to a significant degree by its Italian parent, UniCredit. During the period under review it was announced that Bank Austria's CEE business would be transferred to the parent company in Italy. Restructuring of its Austrian subsidiary Bank Austria will involve reducing the number of branches from 190 to 120 over the next three years. Potential cost savings of around EUR 300 million are intended to reduce the cost/income ratio to 60% by 2018. Strong results posted by Austrian banks in 2016 are largely attributable to lower allocations to credit provisions. Bank Austria's falling exposure in Eastern Europe following the restructuring measures will have a positive influence on the NPL rate for the entire Austrian banking system. At the same time, the transfer of CEE activities will result in lower earnings from these regions. In its December financial stability report, the OeNB gave a positive evaluation of the Austrian banking sector, but indicated that further structural reforms were necessary to bring about lasting improvements in efficiency and sustainable profitability. The OeNB also commented on the domestic real estate sector in connection with potential threats to financial stability. While a significant proportion of private Austrian household debt is accounted for by mortgage lending, it sees only limited systemic risks in the Austrian real estate financing business. Austrian banks' capital adequacy has improved significantly since the financial crisis erupted, as reflected by a EUR 17bn increase in core capital since 2008. Although this trend continued in 2016, Austrian banks remain below the European average with a CET1 ratio of 13.2%. One upside was the amicable agreement on the Heta situation. In October 2016 the Carinthian Compensation Payment Fund (KAF) announced that 98.71% of Heta creditors had accepted its repurchase offer. The agreement of two-thirds of the creditors was required for the offer to become legally effective. Upon acceptance, senior creditors either receive 75% of the nominal value of receivables in cash, or exchange their receivables for secured zero-coupon bonds issued by KAF and guaranteed by the Republic of Austria, which upon completion of the exchange at the end of December (repurchase by KAF) will result in creditors receiving almost 90% of their outstanding receivables.

Stricter capital regulations, a high degree of regulatory influence and persistently low interest rates remain a burden on profitability in the CEE banking sector. That said, there are still opportunities for growth, given solid expansion in the banking sector as a whole and the continued upturn in the retail sector. Increased lending was principally underpinned by falling interest rates, and mortgage lending to private households outperformed lending for corporate customers in some regions. Loan quality in these countries has improved considerably in recent years. Average NPL ratios have declined from a high of 11% in 2013 to 8.8%. The drop in NPL ratios in the retail segment, to 7.2%, has been particularly positive. The main drivers behind this development are falling unemployment, improved creditworthiness among borrowers, restructured balance sheets and disposals of NPLs. Danube region banks' return on equity has increased over the past few years and now averages 6.7%. Falling risk costs should offset pressure on interest rate margins and the impact of rising regulatory costs, meaning that the trend toward increased profitability should continue.

FINANCIAL REVIEW

Financial performance in 2016

EARNINGS (IFRS)

Profit attributable to owners of the parent was significantly higher year on year, at EUR 69.8m (2015: EUR 6.2m). All segments reported strong profit before tax. In terms of earnings, in spite of low interest rates, net interest income was high in 2016, at EUR 124.4m – although this was EUR 6.4m down on 2015 (EUR 130.8m). As reported last year, in 2015 profit was affected by significant impairments recognised in relation to Heta Asset Resolution AG (Heta) bonds. In this regard, there was significant non-recurring income in 2016 from the sale of Carinthian Compensation Payment Fund (KAF) zero-coupon bonds received under the swap for Heta securities.

A fall in reversals and steady growth in the cost of risk led to net losses on credit provisions of EUR 7.8m (2015: net gains of EUR 1.2m), an increase of EUR 9.0m year on year.

The Group reported net trading gains of EUR 0.7m (2015: EUR 3.2m). This was a result of foreign exchange losses on CHF-denominated forward exchange transactions, which were offset by corresponding foreign currency cash transactions recognised in net other operating income (EUR 1.6m), and of earnings contributions from interest rate transactions, largely resulting from the difference between the measurement of customer derivatives and the related hedges.

There was a slight year-on-year fall in administrative expenses of 0.1% or EUR 0.2m to EUR 128.9m (2015: EUR 129.1m), mainly as a result of a decrease of EUR 1.5m in other administrative expenses. The statutory contributions to the deposit insurance and resolution funds, which are reported under other administrative expenses and amounted to EUR 8.1m (2015: EUR 6.6m), had an adverse effect. The statutory financial stability contribution ("bank tax") amounted to EUR 14.9m, compared with EUR 14.7m in 2015.

Net losses on investments accounted for using the equity method stood at EUR 4.8m (2015: EUR 4.7m), primarily as a result of a decline in value in use at the non-profit EWU subgroup (Gruppe Bank segment).

The net gains on available-for-sale financial assets of EUR 57.0m (2015: net losses of EUR 27.8m) were mainly attributable to income from the sale of KAF zero-coupon bonds (see above).

Net other operating income was EUR 31.8m, up on the EUR 25.0m reported in 2015. This also includes measurement gains and losses on cash transactions in the current period. The offsetting foreign currency gains and losses on forward exchange operations (EUR 1.6m) that were not hedging transactions are included in net trading income.

As a result, profit before tax was EUR 93.4m, EUR 81.7m higher than in the same period a year earlier (2015: EUR 11.7m).

ASSETS AND LIABILITIES (IFRS)

The HYPO NOE Group's total assets fell by 3.2% year on year to EUR 15.4bn as at 31 December 2016.

There was a EUR 0.1bn rise in loans and advances to banks, while loans and advances to customers declined by EUR 0.7bn, which was attributable to the reclassification of assets under construction in connection with future lease receivables as other assets, as well as a reduction in loans and advances to public sector customers. There were increases in the positive fair value of trades and hedges (assets side) and the negative fair value of trades and hedges (equity and liabilities side), mainly due to changes in interest rates on the underlying transactions.

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

		2016	2015	2014	2013
Return on equity (ROE) before tax	Profit or loss for the year before tax/ave. equity	15.2%	2.0%	-7.1%	14.3%
Operating return on equity before tax**	ROE before tax excl. financial stability and resolution fund contributions, and regulatory costs/ave. equity adjusted for financial stability and resolution fund contributions, and regulatory costs	18.5%	5.6%	-4.7%	15.4%
Return on equity after tax	Profit or loss for the year/ave. equity	11.4%	1.1%	-5.5%	10.2%
Cost/income ratio (CIR)	Operating expenses/operating income*	56.0%	92.5%	135.2%	59.3%
Operating cost/ income ratio**	Cost/income ratio excl. financial stability and resolution fund contributions, and regulatory costs	46.3%	77.3%	121.1%	56.0%
Risk/earnings ratio	Credit provisions/net interest income	6.3%	-0.9%	5.3%	4.1%

*Operating expenses include administrative expenses. These comprise staff costs, other administrative expenses and depreciation, amortisation and impairment.
Operating income comprises net interest income, net fee and commission income, net trading income, net other operating income, net gains or losses on investments accounted for using the equity method, net gains or losses on financial assets, net gains or losses on hedges and net gains or losses on other financial investments
**Change in calculation in 2016: operating CIR and operating ROE include the costs of contributions to the deposit insurance fund; the figures for the previous year have been adjusted.

On the equity and liabilities side, deposits from customers rose by EUR 0.6bn, and there was a decline of EUR 0.8bn in deposits from banks and of EUR 0.5bn in debts evidenced by certificates.

CHANGES IN EQUITY (IFRS)

IFRS consolidated equity including non-controlling interests as at 31 December 2016 was EUR 647.4m, an increase of EUR 65.9m on year-end 2015. This was principally due to the profit attributable to owners of the parent, while the dividend distribution was the main negative influence on equity.

CHANGES IN EQUITY (CRR/CRD IV[1])

Regulation (EU) No 575/2013 (CRR), which came into effect on 1 January 2014, requires the calculation of figures for consolidated equity and the consolidated regulatory capital adequacy requirements in accordance with IFRS and with the regulatory scope of consolidation. Consolidated eligible capital in accordance with the CRR was EUR 632.7m as at 31 December 2016 (31 Dec. 2015: EUR 597.7m). Surplus capital as at 31 December 2016 was EUR 336.7m (31 Dec. 2015: EUR 282.2m), compared to a capital requirement of EUR 296.0m (31 Dec. 2015: EUR 315.5m). The core capital ratio in accordance with Article 92(2)(b) CRR was 16.3% (31 Dec. 2015: 13.4%), and 16.8% assuming a fully phased-in definition of capital (31 Dec. 2015: 14.0%). The total capital ratio in accordance with Article 92(2)(c) CRR was 17.1% (31 Dec. 2015: 15.2%), and 17.5% assuming a fully phased-in definition of capital (31 Dec. 2015: 15.7%).

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

OPERATIONAL REVIEW

Figures for the individual segments, as well as supplementary information, can be found under Note 7 Segment information.

Gruppe Bank segment

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

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

On 15 June 2016 ratings agency Standard & Poor's confirmed its A/A-1 issuer rating with a "stable" outlook, a reflection of HYPO NOE Gruppe Bank AG's excellent creditworthiness. On 14 October 2016 Moody's Investors Service confirmed its Aa1 rating on HYPO NOE Gruppe Bank AG's public sector and mortgage cover pools. The outstanding rating reviews for other Austrian provincial mortgage banks were completed following the acceptance of KAF's offer for the repurchase of Heta Asset Resolution AG (Heta) debt instruments.

On 29 June 2016 the HYPO NOE Gruppe Bank AG Supervisory Board adopted a resolution that set in motion the project for a merger with wholly-owned subsidiary HYPO NOE Landesbank AG. The main goal of the merger is to reintegrate the retail and housing finance businesses into HYPO NOE Gruppe Bank AG, Lower Austria's core universal bank, in order to achieve efficiency gains, reduce organisational complexity and realise operational synergies. At the same time Wolfgang Viehauser was appointed to the Management Board. On 7 September 2016, Peter Harold was reappointed CEO of HYPO NOE Gruppe Bank AG for another five-year term. Udo Birkner took over as the new CFO/CRO on 1 January 2017, replacing Nikolai de Arnoldi, who left the Company with effect from 31 December 2016. This has completed the formation of the new HYPO NOE Gruppe Bank AG Management Board.

PUBLIC FINANCE

The Public Finance Department is a strong partner for local and regional authorities, public agencies and infrastructure companies. In 2016 the department's activities in Lower Austria and the other eastern states focused on deepening relationships with enterprises linked to the federal and state governments, with a view to further diversifying the portfolio and increasing its granularity. This proactive portfolio reduction strategy was launched during 2016, and some aspects have already been implemented. In line with the Bank's Danube region strategy, public finance solutions were directly marketed to national, regional and metropolitan governments across the Danube region, as well as Austrian clients, on a highly selective basis.

Public Finance's prime objectives are to develop sustainable, integrated financing solutions for customers, in collaboration with other parts of the Group, and increasingly to act as a provider of expertise and services.

Increasing public debt, and the budget constraints facing state governments and local authorities, have led to increased demand for public-private partnerships (PPPs) and innovative financing solutions for construction projects. During the reporting period, HYPO NOE Leasing GmbH was involved in several projects in the education and health sectors. These included the comprehensive renovation of the state vocational college in Neunkirchen and the state nursing home in Mödling. 2016 also saw the handover of the newly built state home for young people in Perchtoldsdorf, and of the newly refurbished and extended state hospital in Baden. New projects include the Landesgalerie Niederösterreich in Krems, where construction work began during the reporting period.

Funding extended to public authorities in the course of 2016 mainly related to investments in water-supply and wastewater infrastructure, as well as the renovation of education and administrative facilities. The projects financed included flood defences, a wastewater treatment plant and alterations to kindergartens and secondary schools.

Close customer relationships and high-quality advice are essential in today's market environment, so the Group attaches great importance to in-service training for its customer relationship managers, carried out in cooperation with partners such as the Lower Austria Community Management Academy and Danube University Krems. In this regard, joint information workshops on current local government finance issues were again staged in conjunction with the Community Management Academy in spring and autumn 2016.

REAL ESTATE FINANCE

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

As in 2015, there was exceptionally fierce competition on lending terms and conditions for high-profile real estate projects in the core Austrian and German markets. There were a number of early repayments, mainly as a result of early refinancing or property disposals by customers. With experts forecasting rising loan-to-value ratios in Germany, there was significant pressure on both the elasticity of lending banks' demand for risk and their margins during 2016. Consequently, Real Estate Finance increasingly focused on selected mortgaged properties, and the department again recorded outstanding performance.

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

As far as large-scale housing construction was concerned, the department acquired additional customers among non-profit housing associations and commercial developers in Lower Austria, Vienna and neighbouring federal provinces. Results were particularly satisfactory in the traditionally strong financing business and in investment.

The department is keeping a close watch on macroeconomic and regional property trends in its target markets outside Austria. The volume of financing relating to commercial property is expected to remain roughly at last year's levels in 2017. The department will maintain a strong focus on optimising earnings potential and achieving a balanced risk-return ratio by selectively seeking new customers among institutional investors, funds and property developers.

The department's business model is based on financing extended on relatively conservative lending terms for the office, shopping centre, retail park, housing, logistics facility and city hotel asset classes. HYPO NOE Gruppe Bank AG and its established business partners particularly value hand-picked, highly adaptable properties.

CORPORATE & STRUCTURED FINANCE

In 2016, operations in the Corporate & Structured Finance Department (CSF) again centred on driving forward the strategy of proximity to customers and intensifying customer relationships, coupled with a strong focus on boosting both service quality and earnings.

The aim is to enhance HYPO NOE Gruppe Bank AG's position as the bank for Lower Austrian business, especially by means of outstanding product-related capabilities and the acquisition of new customers. In this respect, HYPO NOE Gruppe Bank AG attracted major new customers, in particular thanks to its long-term focus, stable ownership and outstanding expertise in connection with products and structuring solutions.

There was a marked reluctance to invest among CSF's target groups in 2016. Investment in expansion was a clear exception – at least in Austria – and in many cases, money was only spent on replacements where absolutely necessary. At the same time, there is considerable competition in refinancing for customers with strong credit ratings. As far as large-scale syndicated financing and bonded loans were concerned, it was noticeable that companies were unable to secure financing on terms that reflected their credit ratings. This led to unwelcome distortion of the market.

CSF was not affected by the restrained corporate demand for loans thanks to its clearly defined niche market policy. This was mainly facilitated by an emphasis on bilateral transactions, based on detailed knowledge of customers and structuring custom financing solutions, for instance in connection with company acquisitions and business succession situations. The proportion of business from existing customers increased, and the department recorded satisfactory results in terms of the financing conditions agreed. In addition, the portfolio was restructured with a view to laying solid foundations for the years ahead. As a result, and also due to systematic implementation of its business policies, CSF exceeded earnings expectations in 2016.

In the Danube region countries, the focus remained on local leading corporates and on supporting Austrian customers in these markets. In project financing, there was a particular emphasis on and strong support for social infrastructure projects.

The corporate time deposits business performed extremely well during the reporting period and is now an important part of the Bank's refinancing base. In the next few years, CSF's efforts will concentrate on further increasing the average terms of customer deposits and broadening the granularity of the customer portfolio.

RELIGIOUS COMMUNITIES, SPECIAL INTEREST GROUPS AND AGRICULTURE

In its third year of operation, the Group Religious Communities, Special Interest Groups and Agriculture Department (KIA) again underlined its expertise in regional and social infrastructure finance, and in agricultural financing.

KIA financed construction projects in the greater Vienna area, Lower Austria and Burgenland for organisations in its target customer group. The opening and handover of these projects is scheduled for 2017.

The internal system for assessing the creditworthiness of agricultural customers was further enhanced, including with the addition of farmers subject to lump-sum taxation. The selective regional targeting of farmers will become more broad-based following the bundling of resources in and expansion of the department's team of agricultural experts, and the emphasis in 2017 will be on increasing the level of business concluded with this customer group.

In 2016 the department once more supported numerous church and social initiatives and enterprises. These again included the renovation of the Sonntagberg Basilica – a landmark of the Mostviertel region – as well as contributions to campaigns and events organised by dioceses and abbeys. KIA also gave its support to "Woche der Wirksamkeit", a week-long event focusing on leadership and spirituality organised by the Kardinal König Haus, the education centre of the Jesuit Order and the charity Caritas.

Last year saw another increase in money market investors' deposits, reflecting the excellent ratings that HYPO NOE Gruppe Bank AG retained.

The goal is to establish the Bank as one of the leading institutions in the religious communities and interest groups segments in Lower Austria and Vienna, and to further expand the Group's know-how in financing and in money and capital market transactions.

In future, the product portfolio will continue to concentrate on:

- Finance for social and public facilities, such as care and social centres, day centres and associated office buildings
- Agribusiness (especially food processing and retailing)
- Finance for the renovation and revitalisation of churches and abbeys
- Money market investments
- Ethical and sustainable investment

CAPITAL MARKETS

Treasury

In 2016, the bond markets were subject to a number of significant temporary shocks on account of major political developments, such as the Brexit referendum, the US presidential election and the referendum on possible constitutional changes in Italy. These resulted in considerable changes in both interest rates and spreads. In spite of the challenging environment, the Treasury Department again met its nostro investment targets in 2016, making a positive contribution to Group earnings. This was mainly due to the purchase of particularly high-quality positions in the nostro portfolio during temporary phases of wider spreads, in particular government bonds and covered bonds. Performance in the derivatives business in connection with hedging and issuing transactions was also very pleasing in 2016.

ALM

Asset Liability Management (ALM) seeks to use the Bank's strategic interest rate risk position to strengthen its financial structure, stabilise net interest income and optimise the risk/return ratio. Close monitoring ensures that the unit responds rapidly to market movements as they unfold. It is looking to use long-term, rolling investment of equity capital to stabilise interest income. In the interests of effective interest rate management, derivative financial instruments are also employed, primarily for hedging purposes. In 2016 the Bank also invested in a fund for the purpose of diversification and in some cases to balance maturing items designed to strengthen its financial structure. The possibility of further investments in 2017 is currently being assessed.

Funding

The first quarter of 2016 was mainly influenced by developments in connection with Heta. Towards the end of the quarter, when a detailed tender and exchange offer was initially submitted to investors, tensions on the Austrian capital market gradually began to ease. Covered bonds in particular became less attractive owing to sharply falling yields, and as a result there was a clear tendency among investors to purchase unsecured bonds. Against this backdrop, HYPO NOE Gruppe Bank AG again scored highly among investors thanks to its stable 'A/A-1' rating from Standard & Poor's and its consistently solid capital base.

Especially in the first half of 2016, the Funding unit was able to exploit market opportunities for the early redemption of own issues that were due to mature in 2017 at attractive spreads, smoothing out the maturity profile.

In the third quarter of 2016, the finalised tender offer for Heta bonds submitted by the Carinthian Compensation Payment Fund (Kärntner Ausgleichszahlungs-Fonds, KAF) was accepted by the majority of the investors concerned. At the same time, there was an unexpected upswing on the Austrian capital market. This resulted, among other things, in a number of very successful debut benchmark covered bond issues from Austrian issuers. HYPO NOE Gruppe Bank AG placed EUR 100m in 30-year public-sector covered bonds with an international investor.

The Bank also completed a highly successful CHF 100m benchmark issue on the unsecured CHF capital market in 2016. Meanwhile, the HYPO NOE Group supported and placed a number of EUR- and CHF-denominated third-party issues.

Austrian customers' continuing confidence in the Bank is reflected above all in the significant increase in customer deposits. In this respect, the Bank once more surpassed its ambitious targets.

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

INSTITUTIONAL CUSTOMERS

Close cooperation with institutional customers in Europe is pivotal to HYPO NOE Gruppe Bank AG's business model. This customer group mainly comprises banks, insurance companies, pension funds, utilities and investment companies. Maintaining relationships with these groups will require continued hard work in order to preserve such long-term, trust-based partnerships.

Investor Relations

In its role as an issuer of covered bonds, bonded loans and unsecured bonds, HYPO NOE Gruppe Bank AG enjoys the advantages of a strong and long-established investor base. In the past few years, interest in HYPO NOE issues has also been increasing in Europe, as well as outside the Group's traditional markets.

Continuous and transparent communication with investors is a central concern for HYPO NOE Gruppe Bank AG. In order to keep a high profile on the capital markets, in 2016 timely and transparent communication with investors, including various roadshows, was a high priority.

During the now-traditional earnings call at the start of March 2016, Management Board members provided information on the Group's financial performance in 2015, following publication of the annual results. This gave Austrian and foreign investors a first-hand insight into the latest developments at the Bank. As in previous years, German-speaking capital market partners again had the chance to speak to the Board members face to face during the investors lunch held at Palais Niederösterreich for the presentation of the Bank's annual results. HYPO NOE Gruppe Bank AG published financial fact sheets at the corresponding reporting dates during the year.

Annual and interim reports and investor presentations are posted in the Investor Relations area of the Group's website (www.hyponoe.at), which also contains information on HYPO NOE Gruppe Bank AG's credit and sustainability ratings and its cover pool. Stakeholders with a special interest in the Bank's sustainability activities will find comprehensive information including our corporate social responsibility report under the Nachhaltigkeit menu item on the German-language version of the site.

PUBLIC LOAN MANAGEMENT

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

The State of Lower Austria has made HYPO NOE Gruppe Bank AG the point of contact for queries from subsidy beneficiaries regarding account administration, account balances and repayments. This enables Lower Austrian owner-builders and the province's numerous housing co-operatives, which are also entitled to apply for such loans, to take advantage of cheap and efficient loan management services. Besides its loan management function, HYPO NOE Gruppe Bank AG handles accounting for many Lower Austrian state government grants, such as those to schools and kindergartens.

The number of loans handled on behalf of the Lower Austrian state government is constantly growing, and the Bank has over 316,000 direct loans, totalling more than EUR 6.2bn, under management for the state government. Subsidised home loans account for the lion's share of this total, at some EUR 5.8bn.

In recent years HYPO NOE Gruppe Bank AG has given the Lower Austrian state government comprehensive assistance with the technical and organisational implementation of the large-scale home loan subsidy scheme, and the Bank now also acts as a point of contact for questions about payment processing issues from the various banks involved in disbursements. In 2016 the Bank handled eleven subsidy tranches – amounting to more than EUR 800m – from the new Lower Austrian large-scale home loan subsidy scheme, with an emphasis on transparency. Also in the year under review, HYPO NOE Gruppe Bank AG assumed responsibility for account administration for current and future loans extended by the Lower Austrian fund for the promotion of facilities for people with special needs and people in need of care.

PARTICIPATIONS

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

In its capacity as a shareholder representative, the Bank promotes, guides and assists investees' strategic business development. The equity investment portfolio is constantly monitored for the purposes of risk management, financial control and governance, and portfolio management measures are implemented.

The following portfolio restructuring events took place in 2016:

As a consequence of the merger agreement concluded on 29 June 2016, the entire assets of SRE Immobilien Deutschland GmbH (the predecessor company) including all rights and obligations were transferred to SRE Immobilien GmbH (the acquiring company) by way of universal succession without recourse to liquidation, with effect from the merger date of 31 December 2015. The transfer became legally effective on 15 July 2016 upon entry in the register of companies.

Wohnbauinvestitionsbank GmbH (WBIB) was set up on 1 October 2016. HYPO Wohnbaubank owns 10% of WBIB, meaning that the HYPO NOE Group holds a 1.25% stake.

Under a resolution adopted by the general meeting on 19 February 2016, Kasernen Immobilienerrichtungsgesellschaft mbH merged with Kasernen Projektentwicklungs- und Beteiligungs GmbH by way of the transfer of assets.

FOREIGN BRANCHES, REPRESENTATIVE OFFICES AND BRANCHES

HYPO NOE Gruppe Bank AG had no foreign branches in 2016, but operated representative offices in Bucharest, Budapest, Prague and Sofia.

HYPO NOE Gruppe Bank AG has operated a branch at Wipplingerstrasse 4, 1010 Vienna since 2008. As at 31 December 2016 HYPO NOE Landesbank AG had 27 branches in Lower Austria and Vienna.

Landesbank segment

HYPO NOE LANDESBANK AG

HYPO NOE Landesbank AG is responsible for the HYPO NOE Group's retail banking and residential housing development businesses. The bank has defined "finance and housing", "saving and investment" and "accounts and cards" as its core competences.

With HYPO NOE Gruppe Bank AG as its parent and a strong owner in the shape of the Lower Austrian state government, HYPO NOE Landesbank AG bases its business model on stable long-term customer relationships in its home region. Highly experienced and motivated staff create solutions tailored to customers' needs, with a view to meeting their demanding requirements.

HYPO NOE Landesbank AG's branches provide outstanding service to private, self-employed and corporate customers in the Group's core market of Lower Austria and Vienna. Further steps aimed at optimising HYPO NOE Landesbank AG's branch network were taken during the year under review, with a constant focus on enhancing customer satisfaction and loyalty.

In 2016 there was also an emphasis on extending the multi-channel strategy. The latest step was the launch of the new HYPO NOE mobile banking app in November. This enables customers to conclude banking transactions more easily, flexibly and securely on mobile devices. HYPO NOE Landesbank AG launched its new video-based customer advice service in 2016. The aim is to give customers a means of contacting a personal relationship manager in their home region.

As in 2015, retail banks were faced with a very challenging interest rate situation in the reporting period. In spite of this and the prevailing market trend, HYPO NOE Landesbank AG recorded notable success in the saving and investment business thanks to a number of savings account campaigns. HYPO NOE Landesbank AG is keeping up its drive to acquire new customers, and this has been reflected in additional lending volume. Although conditions on the market were difficult, there was an improvement in margins on new business in the retail segment.

Ongoing optimisation of the product range, and improvements to internal processes – such as reorganisation of the lending process – are aimed at further enhancing the quality of HYPO NOE Landesbank AG'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 loan portfolio management also resulted in a sizeable reduction in loan loss provisions.

A customer acquisition campaign targeting small and medium-sized enterprises (SMEs) in Lower Austria and Vienna drove further growth in the business customer base in 2016. However, due to the profitability of this area of banking, extremely strong competition for business from this customer group is expected to continue in future. HYPO NOE Landesbank AG will respond to this by working even more closely with customers and offering more frequent appointments.

The Bank acquired additional customers among large-scale non-profit housing associations and commercial developers in Lower Austria, Vienna and neighbouring federal provinces in 2016. Performance in corporate banking was also strong, with success in the investment business in particular as well as in the financing business, which is traditionally one of the Bank's strengths.

Stiff competition is also expected in relation to cooperation with non-profit housing associations and commercial property developers. Especially in view of the current market situation, efforts aimed at increasing closeness to customers and highlighting the Bank's philosophy as a partner to its customers will continue.

Regarding the merger with HYPO NOE Gruppe Bank AG, initial preparations began in 2016 and the project is proceeding according to schedule. The intention is to strengthen HYPO NOE Landesbank AG's position as a division – and no longer as an independent company – within the merged bank.

Leasing segment

HYPO NOE LEASING GMBH

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

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

In response to the increased demand for bespoke forms of financing such as PPP models, HYPO NOE Leasing GmbH has made significant efforts to drive the development of such products. The company will continue to implement this strategy, and such forms of financing should become a key line of business in the medium term.

Although public construction remained stagnant in 2016, the volume of financing during the year was very satisfactory on the whole. This is also reflected in HYPO NOE Leasing GmbH's success in extending its leadership in the market for public sector lease finance in Austria.

Other segment

HYPO NOE IMMOBILIEN BETEILIGUNGSHOLDING GMBH

In 2015 the HYPO NOE Group's real estate business, comprising HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH, was merged into HYPO NOE Immobilien Beteiligungsholding GmbH. In line with the primary goal of providing a one-stop shop for the entire real estate management value chain, the holding company brings together facility and property management, real estate sales and brokerage services, construction management and cross-selling functions, with a focus on Lower Austria and Vienna. The company specialises in property services and portfolios that are tailored to the needs of a changing society.

The registration of NOE Immobilien Development AG (NID) on 21 November 2015 as a wholly-owned subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH laid the foundations for consolidation of the Group's property portfolio, with the aim of creating investor-friendly structures and facilitating the implementation of development projects currently at the planning stage by involving all of the services offered by the Group. NID concentrates on premium and affordable housing and district development. The acquisition of a 52% majority interest in NID by external investors was completed with the entry of the transaction in the register of companies on 30 December 2016. HYPO NOE Gruppe Bank AG will continue to hold a non-controlling interest of 48% (through HYPO NOE Immobilien Beteiligungsholding GmbH).

HYPO NOE REAL CONSULT GMBH

The construction management unit completed the Karl Landsteiner University of Health Sciences project with the handover to the users at the end of 2016. Following an Europe-wide tender process, HYPO NOE Real Consult GmbH was awarded a further contract for its largest current project, at the Institute of Science and Technology Austria (IST Austria), which is scheduled for completion in 2023. Construction work began on the Landesgalerie Niederösterreich project in Krems, and the project management team is now working on further project-related tasks. The project is due to be completed in spring 2018. Phase five of Amstetten hospital was also concluded, handed over and opened in 2016.

In terms of sales and estate agency services, HYPO NOE Real Consult GmbH is making progress on work connected with Group projects, and its activities under contracts with third parties in Lower Austria and Vienna. The process of bringing the Karrée Korneuburg and other development projects to market is under way.

In property management, the company is taking steps to increase its market share in the Lower Austrian local authority segment and among private sector customers in the St. Pölten area. The number of customers increased during 2016 with the award of contracts for properties for various Lower Austrian municipalities, and for a BK Immo Vorsorge GmbH project in the Kalksburg area of Vienna.

HYPO NOE FIRST FACILITY GMBH

Founded over 30 years ago, HYPO NOE First Facility GmbH is a leading provider of integrated facility management (FM), technical FM and special services for technically advanced and complex properties, forming a key link in the HYPO NOE Group's real estate value chain. The company focuses on Lower Austria, Vienna and the Danube region, supporting its customers and leaving them free to concentrate on their core business. The main customer groups are property fund companies, banks and insurance companies, as well as public sector clients.

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

The market situation in the CEE countries is largely unchanged. Due to the current conditions in 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 facility management. Nevertheless, overall performance abroad was satisfactory and the volume of business grew.

HUMAN RESOURCE MANAGEMENT

The success of the HYPO NOE Group is heavily dependent on the knowledge and experience of its employees, on the Bank's ability to retain and motivate them, as well as on its targeted acquisition of new staff. This is vital for overcoming the challenges that lie ahead and capitalising on opportunities.

With this in mind, Management prioritises targeted training and development programmes designed to enhance the skills and abilities of all our people. 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.

Human resources in 2016: facts and figures

At year-end 2016 HYPO NOE Group had 863 employees (31 Dec. 2015: 940), 51 of whom were on unpaid leave (31 Dec. 2015: 47). The workforce comprised 486 male and 377 female staff (31 Dec. 2015: 532 male and 408 female). In terms of full-time equivalents (FTEs), there were 774.6 employees at year-end (31 Dec. 2015: 848.9). The headcount falls to 718.9 FTE as at 31 December 2016 if non-active employees are excluded. Seven people were employed at our representative offices abroad (2015: 7). As mentioned in the annual report for 2015, the HYPO NOE Group began implementing a modest reduction in personnel in 2016, predominantly at HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG.

Organisational issues

In 2016 the Group pressed ahead with the implementation of measures introduced at the end of 2015 with a view to achieving moderate savings and efficiency gains. In HR management there was an emphasis on cost awareness and on sustainability, which will lay the foundations for future activities. The merger of HYPO NOE Gruppe Bank AG and its fully-owned subsidiary HYPO NOE Landesbank AG, which was approved by the Supervisory Board by means of a resolution passed at the end of 2016, will be one of the main organisational tasks in HR management in the year ahead. The merger is due to be completed in September 2017, subject to approval by the Austrian Financial Market Authority. Preparations for change management processes are already under way and a project building on them has been implemented. With the support of external partners, a survey of the employees affected was carried out so that their suggestions, wishes and fears related to the planned merger can be taken into account. The response rate was around 70%. Additionally, each department has nominated a representative in order to ensure continuous communication.

Work also continued on restructuring the real estate business, a process that began in 2015. HYPO NOE Real Consult's project development operations were outsourced to NOE Immobilien Development AG and the employees concerned moved to the latter by way of a transfer of undertakings. (At the end of December 2016, 52% of NOE Immobilien Development AG was sold to external investors, in order to safeguard the company's long-term growth.)

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. Due to the stronger emphasis on cost-saving, HR development measures in 2016 were aimed primarily at ensuring compliance with regulatory and other statutory regulations.

Staff appraisals play a central role in HR development and are now in place across the Group. Regular, systematic and forward-looking discussions of employees' skills and interests are held with a view to agreeing specific targets for the job in question and in relation to the Company as a whole, which are included in a personal development agreement for each member of staff. These served as the basis for training and development in 2016, in particular professional training and training required under law.

The latest round of the Group-wide Best of Leadership programme for up-and-coming managers took place during the year under review. As part of their end-of-course assignment, the participants produced a short film on the planned merger in collaboration with St. Pölten University of Applied Sciences; the film was then made available to all Group employees on the intranet. The course enabled 14 newly appointed managers to enhance their expertise and gain valuable experience in a series of theoretical and practical modules.

In 2016, all participants completed the HYPO 1 induction course and HYPO 2 basic training course that form part of the collective agreement for employees of the Austrian provincial mortgage banks. Five employees from the Sales Department completed HYPO 3, a one-year professional course in general banking. HR development at HYPO NOE Landesbank also focused on sales and product training.

Sustainability and human resource management

In 2016, staff from all over the Group were again able to take advantage of expert support on work-related matters (e.g. workplace coaching, conflict moderation and assistance for those switching career) and in connection with stressful situations; support is offered on an anonymous basis.

	HC			Ave. HC p.a.	FTE		
2016	**Total**	**m**	**f**	**Total**	**Total**	**m**	**f**
HYPO NOE Gruppe Bank AG	332	176	156	341.2	293.5	164.1	129.4
HYPO NOE Landesbank AG	312	167	145	324.5	276.9	162.8	114.1
HYPO NOE Real Consult GmbH	43	17	26	48.2	38.0	16.5	21.5
HYPO NOE Leasing GmbH	34	12	22	33.3	30.0	12.0	18.0
HYPO NOE Valuation & Advisory GmbH	3	2	1	3.0	3.0	2.0	1.0
HYPO NOE First Facility GmbH	122	102	20	127.6	117.1	98.2	19.0
HYPO NOE Versicherungsservice GmbH	4	3	1	3.2	3.5	3.0	0.5
HYPO NOE Immobilien Beteiligungsholding GmbH	13	7	6	12.2	12.5	7.0	5.5
HYPO NOE Group	**863**	**486**	**377**	**893.0**	**774.6**	**465.6**	**309.0**

	HC			Ave. HC p.a.	FTE		
2015	**Total**	**m**	**f**	**Total**	**Total**	**m**	**f**
HYPO NOE Gruppe Bank AG	344	189	155	341.2	308.9	175.1	133.8
HYPO NOE Landesbank AG	362	4	178	353.2	323.9	180.4	143.5
HYPO NOE Real Consult GmbH	50	25	25	51.0	42.4	23.3	19.1
HYPO NOE Leasing GmbH	33	12	21	33.1	30.0	12.0	18.0
HYPO NOE Valuation & Advisory GmbH	3	2	1	3.2	3.0	2.0	1.0
HYPO NOE First Facility GmbH	138	114	24	135.3	132.1	111.2	20.8
HYPO NOE Versicherungsservice GmbH	3	2	1	3.0	2.5	2.0	0.5
HYPO NOE Immobilien Beteiligungsholding GmbH	7	4	3	3.1	6.2	4.0	2.2
HYPO NOE Group	**940**	**532**	**408**	**922.9**	**848.9**	**510.0**	**338.9**

Key: m = male; f = female; FTE = full time equivalent; HC = head count

Owing to the decimal places, rounding is used when calculating the totals

RISK REPORT

The objectives and methods of risk management and the explanations of material risks form part of the notes (8.6 Risk management).

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (ICS)

Internal Audit

The importance of internal audit as part of a bank's internal control systems is reflected in the fact that it is enshrined in 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.

The 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. In 2016 the Audit Department was also involved in a variety of projects. The other departments made extensive use of the Department's advisory services.

In 2016, 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 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 2016 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.

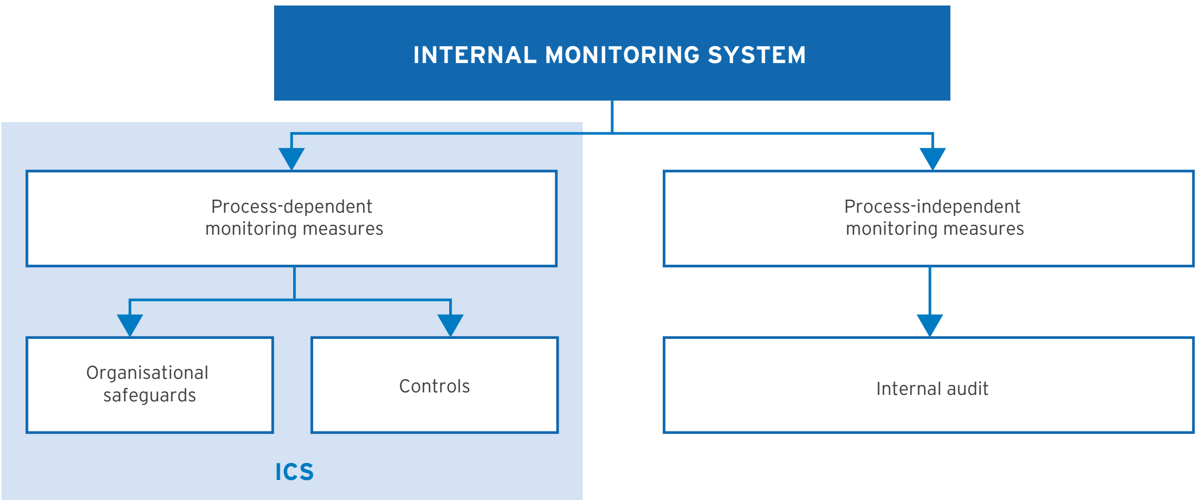
The HYPO NOE Group's internal control system comprises a comprehensive range of coordinated methods and measures that ensure

- compliance with laws and guidelines (compliance objectives)
- the efficiency and effectiveness of the Group's business activities
- the reliability of operational information, and
- optimal compliance with financial assumptions to maintain an adequate internal control system and procedures for financial reporting in financial statements, notes and risk reporting,

The HYPO NOE Group's internal monitoring system comprises process-dependent and process-independent monitoring measures.

As part of the process-independent measures, internal audit is clearly distinct from the ICS. All internal audit activities are subject to Group-wide standards based primarily on the Austrian Banking Act, 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 2016, the audits carried out in Accounting/Group Accounting focused on documentation management/billing run (payment orders, booking invoices) as well as accounting procedures (as part of registration verification). as part of the regular internal audits of regulatory reporting to the Oesterreichische Nationalbank (OeNB) and the Austrian Financial Market Authority (FMA).

There are two forms of process-dependent monitoring measures:



Organisational safeguards

Organisational safeguards are all measures implemented at organisational level as well as one-off measures – either within a department or across several departments – that are designed to prevent errors, fraud and damage to the HYPO NOE Group, e.g.

- signature regulations, decision-making authorities
- role and permission systems in IT applications
- daily, weekly and monthly reports

Controls

As far as the ICS is concerned, controls are periodic activities (checks) that are directly or indirectly integrated into the processes being monitored and are designed to safeguard the quality of their outcomes (early identification and prevention of deviations in the process).

While value for money is a concern when implementing controls, fulfilment of legal requirements, including those with no demonstrable benefit, must always be assured.

Examples of ICS controls:

- Four-eye principle within individual departments, or across departments
- Use of checklists
- Automated checking of values and generation of reports/lists
- Checking information

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

The main features of the Group'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 Finance, Regulatory Reporting & Tax Advisory Department at HYPO NOE Gruppe Bank AG 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 according to the following criteria:

- Employment of the Group's assets;
- Recording of all the information required to draw up the annual financial statements, and prevention of unauthorised purchases and sales;
- Establishment of risk-based decision-making authorities and monitoring instruments.
- The chart of accounts is tailored to the special requirements of the Group.
- 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 main functions involved in the accounting process – Group Accounting, Controlling and Risk Management – are clearly demarcated and managed as separate departments.
- Departmental responsibilities are unambiguously assigned.
- The computer systems employed are protected against unauthorised access by appropriate control mechanisms.
- Accounting data are audited for their 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.
- Periodic reports are sent to the Oesterreichische Nationalbank (OeNB) 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 firewalled 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.

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

As a financial services provider, research and development in the industrial sense only plays a minor role at the HYPO NOE Group. We constantly invest in innovation and fine-tuning, in line with our guiding principle of offering customers continuous improvements in all lines of business and in product quality (further information can be found in the operational review).

GROUP OUTLOOK FOR 2017

Economic environment

The positive economic trend persisted and solidified, in a setting dominated by political uncertainties. Compared to the start of 2016, when growth concerns and sliding commodity markets set the tone, the initial outlook for 2017 is upbeat. Leading indicators are on the up in almost all of the main economies. The combination of an extremely loose monetary stance and moderate stimulus from fiscal policy should ensure that the world economy maintains its recovery in 2017. The IMF has therefore revised its growth projection for the global economy upwards from 3.1% to 3.4% in 2017, and to 3.6% in 2018. It sees growth in the euro area virtually unchanged from last year's level, at 1.6%.

Commodity prices are expected to extend the recovery that began during the spring of 2016, albeit only at a gentle pace. The inflation trend has also changed direction, in line with the upturn in commodity prices. While the forecast increase in inflation up to spring 2017 mainly reflects statistical base effects that will subsequently fade, the rate is now visibly closing in on the ECB's target. Underlying inflationary pressures are more pronounced in the USA – the Federal Reserve has already reached all of its monetary policy targets, and will be looking at further interest rate rises. The British Brexit vote has not yet had a noticeable impact on the economy, apart from a jump in inflation caused by the ailing pound. In all likelihood the Bank of England will respond by dropping quantitative easing (QE) when the current six-month programme ends in March. This would probably leave all of the major central banks pursuing more restrictive overall monetary policies for the rest of 2017. In December 2016, the ECB decided to scale back its QE scheme from April 2017 onwards, and it is likely to opt for a further reduction in the second half of the year. These moves point to a continuation of the escalation in eurozone market interest rates that began in the autumn of 2016.

However, the above predictions will only be borne out if the manifold political uncertainties do not bring a significant change in the economic backdrop. The political situation in Europe is fragile, and will remain so for the foreseeable future. Impending elections in some member states could lead to political realignments with effects at both national and EU level; these might be positive or negative, depending on the outcome. Donald Trump's election as President of the USA likewise carries both opportunities and risks. On the upside, the incoming administration could give a new impetus to growth. On the downside, the world economy could be harmed by protectionism and/or escalating political conflicts. Finally, the downside risk presented by the condition of the Chinese economy should be borne in mind. The soft landing achieved so far has taken massive intervention by the government and the central bank, including another large dose of credit growth. The resultant surge in total debt, and slow progress with trimming overcapacity are prices the country has been happy to pay, but sooner or later the heavy debt load is bound to cause new problems. Although there are few tangible warning signs at present, it will be essential to keep a close watch on future developments.

The economic research institutes and the Oesterreichische Nationalbank (OeNB) expect Austrian economic growth to run at about 1.5% over the 2017-2019 period – broadly in line with the EU average. Private consumption and gross fixed capital formation are again likely to provide most of the momentum, but public expenditure is also set to contribute. The effects of the tax reform and the reduction in income tax, as well as the planned action to neutralise fiscal drag, will provide an ongoing boost to consumption. The OeNB expects the saving rate, which rose in 2016, to drop back in the medium term, fuelling an upswing in investment. The forward-looking economic sentiment indicator for Austria published by Eurostat in December 2016 shows a clear year-on-year improvement in business confidence across all the sectoral indicators. The mood in the industrial, construction and retail trade sectors has brightened markedly going into 2017. This applies to order books, investment plans and employment expectations, among other metrics.

The HYPO NOE Group's target markets are likely to continue to record growth significantly above the EU average. Here, too, the main growth driver will be private consumption, followed by gross fixed capital formation. In addition, the new EU funding regime was in place by the end of 2016, and this will also provide a strong stimulus for the economies of the CEE member states. The EU development funds will continue to account for a large proportion of public investment in these countries and will be the mainspring of many projects, especially infrastructure spending.

Outlook for Group performance

Following the economic and political uncertainties that shook world financial markets in 2016, customers are all the more appreciative of the HYPO NOE Group's stability, reliability and expertise as a regional partner. We remain committed to our strategy of concentrating on our home market whilst cautiously diversifying by means of exposures in our extended core market. One of our core competences in this respect is our close customer relationships, which we actively seek so as to identify attractive business opportunities, and to minimise default risk by performing a comprehensive assessment of our clients and regional markets. The geographical focus of our activities is always on Lower Austria and Vienna, where our branches give retail and corporate customers points of contact with the expertise to deal with all of their financial concerns. Our edge in public finance, in retail and corporate banking, and in real estate finance and development are central to the Group's corporate image, thanks to our ability to offer competitive terms, flexible solutions, and quick and reliable execution.

Advances in digitalisation are also having an impact on the HYPO NOE Group's business model and processes. In 2017, the Group will again look to capitalise on the increasing range of possibilities for digitalisation, building on the new HYPO NOE mobile banking app and the launch of the video-based customer advice service.

The one-stop service we offer public sector clients and special interest groups in financial matters is a key element of the Group's business strategy which we will continue to develop in 2017. With interest rates at historic lows, and the resultant squeeze on banks' net interest margins, the Group is looking to grow the service business. Broadening the customer base whilst exploiting attractive business opportunities will be a high priority. Another focus is providing services related to real estate finance, both in connection with private, multi-storey housing and as a partner to property developers in Austria and the wider Danube region.

Current plans call for a progressive strengthening of our capital base by retaining earnings. As things stand, the Group expects this to enable it to continue to meet the capital requirements. The HYPO NOE Group expects to post solid operating profits, in line with the long-term average, in the coming years.

In the Gruppe Bank segment, most of the new business budgeted for in 2017 is likely to be classed as investment grade. Foreign exposures will mainly relate to real estate and structured corporate finance, and will be consistent with our risk policies in terms of the regional markets, limits and customer categories concerned, and constantly monitored. We hope to expand our highly successful corporate investment services business once more in 2017, thereby further strengthening the refinancing mix. Measures are being taken to improve segment profitability.

The Landesbank segment is keeping up its drive to acquire new customers, as reflected in additional lending. Landesbank is also aiming to capitalise on its broad product range and its ability to offer sophisticated bespoke solutions to drive service business growth. The provision of housing finance on the Lower Austrian and Viennese home market will remain a core competence in retail banking operations in 2017. The current popularity of home ownership points to continued strong property demand. Generating primary funding so as to ensure that the segment is largely self-financing will again be a priority in 2017. Success factors here will be streamlining processes, and steadily enhancing the skills of our customer relationship managers, with a view to matching and exceeding past high standards.

In June 2016 the Group's parent HYPO NOE Gruppe Bank AG resolved to order preparations for its merger with HYPO NOE Landesbank AG. A broad-based project involving all of the major internal stakeholders was put in place, and those concerned are already working hard to ensure that the merger of the two entities goes smoothly for customers and employees. The formal merger is scheduled for September 2017, and will be retroactive to 1 January 2017. The main goal of the merger is to reintegrate the retail and residential construction businesses into HYPO NOE Gruppe Bank AG, the core bank for the State of Lower Austria. The related operational synergies and reduced organisational complexity should enable the Group to boost efficiency.

In the Leasing segment, in 2017 the emphasis will be on new PPP projects and – following the satisfactory growth of the past few years – on optimising and broadening the investor base in terms of lease volume.

In the Other segment, the acquisition of a majority interest in NOE Immobilien Development AG (NID) by outside investors, which was finalised in December 2016, will result in major changes. A group of investors now hold a total interest of 52%, leaving HYPO NOE Gruppe Bank AG with 48% (held through HYPO NOE Immobilien Beteiligungsholding GmbH). NID manages the HYPO NOE Group's portfolio of housing and urban development projects in Lower Austria and Vienna. The new ownership structure will have a positive impact on NID's operations because it frees the company from previous restrictions on the scale of its development activities under banking law.

This will enable the Other segment to continue to concentrate on making the most of the real estate value chain, working through HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH.

New investments in securities are primarily made in order to fulfil regulatory requirements and manage liquidity. Large holdings of securities, which were purchased in past years as liquidity cover for own issues maturing in autumn 2017, will themselves expire in 2017. It will be possible to use the resources freed up in this way to pay down debt. The HYPO NOE Group has detailed, long-term liquidity policies, on the basis of which early action is taken to smooth out refinancing peaks. This approach will remain in place, in order to improve the prospects of a positive market response to future issues. Professional and proactive investor relations are central to success, and will again take the form of roadshows and conferences in 2017. In addition to private placements, the Group plans to return to international capital markets in 2017 by issuing a benchmark covered bond. Deposits should remain stable at their current high level. In respect of debt maturing in 2017 for which guarantors are liable, in addition to the solid liquidity situation the Bank still has sufficient utilisable collateral available.

Regarding risk management, the HYPO NOE Group will further enhance its infrastructure, processes and methodologies, in order to be able to comply with future regulatory requirements (Basel IV, IFRS 9, MREL, leverage ratio). This will also ensure that risk control systems remain compatible with the authorised levels of risk tolerance and the Group's business objectives. HYPO NOE Gruppe Bank AG expects the FMA to issue a notice in 2017 determining the SREP ratio; this notice will set out the new minimum capital requirements in Pillar II. The procedure used to date suggests that the Bank's capitalisation is sufficient to meet the new requirement.

Past efforts, coupled with a well thought-out business model and careful planning, will lay the groundwork for successful customer relationships based on mutual trust. The Group has given itself firm foundations, which it will continue to strengthen in the interests of its customers, owner and workforce.

St. Pölten, 17 February 2017
The Management Board

Peter Harold	**Udo Birkner**	**Wolfgang Viehauser**
Chairman of the Management Board	Member of the Management Board	Member of the Management Board
	(from 1 Jan. 2017)	(from 15 Jul. 2016)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
FOR HYPO NOE GRUPPE BANK AG IN ACCORDANCE WITH IFRS

STATEMENT OF COMPREHENSIVE INCOME

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

Profit or loss (EUR '000)	Notes	2016	2015	Change
Interest and similar income	5.1	565,645	583,757	-18,112
Interest and similar expense	5.2	-441,206	-452,917	11,711
Net interest income		**124,439**	**130,840**	**-6,401**
Credit provisions	5.3	-7,789	1,171	-8,960
Net interest income after risk provisions		**116,650**	**132,011**	**-15,361**
Fee and commission income		16,534	16,638	-104
Fee and commission expense		-3,076	-2,788	-288
Net fee and commission income	5.4	**13,458**	**13,850**	**-392**
Net trading income	5.5	665	3,242	-2,577
Administrative expenses	5.6	-128,937	-129,111	174
Net other operating income	5.7	31,787	25,000	6,787
Net gains or losses on disposal of consolidated subsidiaries	5.8	8,384	-	8,384
Net gains or losses on investments accounted for using the equity method	(3.2.3)	-4,813	-4,744	-69
Net gains or losses on available-for-sale financial assets	5.9	56,989	-27,825	84,814
Net gains or losses on financial assets designated as at fair value through profit or loss	5.10	249	-126	375
Net gains or losses on hedges	5.11	-1,224	-1,887	663
Net gains or losses on other financial investments	5.13	222	1,249	-1,027
Profit before tax		**93,430**	**11,659**	**81,771**
Income tax expense	5.14	-23,432	-5,255	-18,177
Profit for the year		**69,998**	**6,404**	**63,594**
Non-controlling interests	5.15	-178	-252	74
Profit attributable to owners of the parent		**69,820**	**6,152**	**63,668**

Other comprehensive income (EUR '000)	2016	2015
Profit attributable to owners of the parent	**69,820**	**6,152**
Items that will not be reclassified to profit or loss		
Change in actuarial gains or losses (before tax)	*-1,455*	*824*
Other changes (before tax)	*1*	*0*
Change in deferred tax	*364*	*-206*
Items that may be reclassified subsequently to profit or loss		
Change in available-for-sale financial instruments (before tax)	*1,407*	*4,987*
Exchange differences on translating foreign operations accounted for using the equity method (before tax)	*23*	*-13*
Change in deferred tax	*-358*	*-1,243*
Total other comprehensive income	**-18**	**4,348**
Total comprehensive income attributable to owners of the parent	**69,802**	**10,500**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Assets (EUR '000)	Notes	31 Dec. 2016	31 Dec. 2015	Change
Cash and balances at central banks	(6.1)	164,587	68,986	95,601
Loans and advances to banks	(6.3)	998,347	922,091	76,256
Loans and advances to customers	(6.4)	10,854,932	11,557,287	-702,355
Risk provisions	(6.5)	-97,462	-100,423	2,961
Assets held for trading	(6.6)	555,293	586,811	-31,518
Positive fair value of hedges (hedge accounting)	(6.7)	483,215	509,458	-26,243
Available-for-sale financial assets	(6.8)	1,967,148	2,104,338	-137,190
Financial assets designated as at fair value through profit or loss	(6.9)	20,340	4,118	16,222
Investments accounted for using the equity method	(6.10)	29,922	20,937	8,985
Investment property	(6.11)	54,117	68,704	-14,587
Intangible assets	(6.13)	918	1,411	-493
Property, plant and equipment	(6.14)	77,525	80,159	-2,634
Current tax assets	(6.16)	20,333	19,653	680
Deferred tax assets	(6.16)	1,443	2,105	-662
Other assets	(6.17)	261,393	50,010	211,383
Total assets		**15,392,051**	**15,895,645**	**-503,594**

Equity and liabilities (EUR '000)		31 Dec. 2016	31 Dec. 2015	Change
Deposits from banks	(6.19)	1,462,298	2,217,495	-755,197
Deposits from customers	(6.20)	3,847,855	3,260,856	586,999
Debts evidenced by certificates	(6.21)	7,698,831	8,165,837	-467,006
Liabilities held for trading	(6.22)	502,954	516,969	-14,015
Negative fair value of hedges (hedge accounting)	(6.23)	793,697	740,962	52,735
Provisions	(6.24)	50,155	55,794	-5,639
Current tax liabilities	(6.25)	20,127	10,073	10,054
Deferred tax liabilities	(6.25)	36,955	34,434	2,521
Other liabilities	(6.26)	129,430	106,297	23,133
Subordinated capital	(6.27)	202,381	205,449	-3,068
Equity (incl. non-controlling interests)*	(6.28)	647,368	581,479	65,889
Equity attributable to owners of the parent – share capital		51,981	51,981	-
Equity attributable to owners of the parent – reserves		586,968	520,874	66,094
Non-controlling interests		8,419	8,624	-205
Total equity and liabilities		**15,392,051**	**15,895,645**	**-503,594**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 Dec. 2016, EUR '000	1 Jan. 2016	Profit/ loss for the year	Capital increase	Divi- dends paid	Changes in scope of consolidation	Other comprehen- sive income	Trans- fers	31 Dec. 2016
Share capital	51,981	-	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	-	191,824
Retained earnings	293,267	69,820	-	-2,000	-1,702	-	-5	359,380
IAS 19 reserve	-4,393	-	-	-	-	-1,091	-	-5,484
Available-for-sale reserve	40,246	-	-	-	-	1,055	-	41,301
Currency translation reserve	-70	-	-	-	-	17	-	-53
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**572,855**	**69,820**	**-**	**-2,000**	**-1,702**	**-19**	**-5**	**638,949**
Non-controlling interests	8,624	178	841	-261	-968	-	5	8,419
TOTAL EQUITY	**581,479**	**69,998**	**841**	**-2,261**	**-2,670**	**-19**	**-**	**647,368**

31 Dec. 2015, EUR '000	1 Jan. 2015	Profit/ loss for the year	Capital increase	Divi- dends paid	Changes in scope of consolidation	Other comprehen- sive income	Trans- fers	31 Dec. 2015
Share capital	51,981	-	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	-	191,824
Retained earnings	287,115	6,152	-	-	-	-	-	293,267
IAS 19 reserve	-5,011	-	-	-	-	618	-	-4,393
Available-for-sale reserve	36,505	-	-	-	-	3,741	-	40,246
Currency translation reserve	-60	-	-	-	-	-10	-	-70
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**562,355**	**6,152**	**-**	**-**	**-**	**4,348**	**-**	**572,855**
Non-controlling interests	8,371	252	-	-	-	-	2	8,624
TOTAL EQUITY	**570,726**	**6,404**	**-**	**-**	**-**	**4,348**	**2**	**581,479**

See Note 6.28 for a discussion of the consolidated statement of changes in equity.

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

EUR 1,301thsd in after-tax gains on available-for-sale (AFS) financial instruments (2015: losses of EUR 456thsd) were recycled from other comprehensive income to profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	31 Dec. 2016	31 Dec. 2015
Profit for the year (before non-controlling interests)	**69,998**	**6,404**
Non-cash comprehensive income items		
Amortisation, depreciation, impairment and write-ups	-14,965	35,900
Allocations to and reversals of provisions and risk provisions	8,010	16,952
Gains on disposal of financial assets and property, plant and equipment	-41,073	-1,008
Other adjustments	5,309	-17,563
Changes in assets and liabilities due to operating activities after adjustments for non-cash components		
Loans and advances to banks	-71,971	21,657
Loans and advances to customers	748,815	-490,521
Available-for-sale financial assets	163,022	115,699
Other operating assets	-163,730	44,185
Deposits from banks	-753,086	-408,169
Deposits from customers	595,004	967,826
Debts evidenced by certificates	-457,005	-239,683
Other operating liabilities	30,995	-87,236
CASH FLOWS FROM OPERATING ACTIVITIES	**119,323**	**-35,558**
Proceeds from sale of/redemption of:		
Other investments	-	3,533
Property, plant and equipment, intangible assets and investment property	3,399	1,954
Purchase of:		
Other investments	-92	-805
Property, plant and equipment, intangible assets and investment property	-17,861	-9,062
Cash flows from the disposal of subsidiaries	-807	-
CASH FLOWS FROM INVESTING ACTIVITIES	**-15,361**	**-4,380**
Dividends paid	-2,261	-
Subordinated debt – outflows	-1,598	-2,205
CASH FLOWS FROM FINANCING ACTIVITIES	**-3,860**	**-2,205**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**-4,501**	**12,104**

EUR '000	31 Dec. 2016	31 Dec. 2015
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	**68,986**	**99,025**
Cash flows from operating activities	119,323	-35,558
Cash flows from investing activities	-15,361	-4,380
Cash flows from financing activities	-3,860	-2,205
Effect of exchange rate changes on cash and cash equivalents	-4,501	12,104
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**164,587**	**68,986**
PAYMENTS FOR TAXES, INTEREST AND DIVIDENDS		
Income taxes refunded/paid	-11,228	-11,233
Interest received	558,087	576,939
Interest paid	-444,431	-463,687
Dividends on AFS investments received	2,170	1,101
Dividends received from associates	697	902
Dividends received from joint ventures	271	526

Information on the consolidated statement of cash flows can be found in Note 4.

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS AND GOVERNING BODIES

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, and has 27 branches. **HYPO NOE First Facility GmbH** is one of the leading full-line facility management service providers in Austria and the CEE region.

The 2016 consolidated financial statements will be published in the Wiener Zeitung on 7 March 2017, and posted in the Investor Relations/Reports section of 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 2016 were drawn up in accordance with section 245a Unternehmensgesetzbuch (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, and 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 2016, and applicable to the business activities of the HYPO NOE Group.

NEW AND AMENDED STANDARDS THAT 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. Another goal was to avoid the simple quotation or transcription of passages from IAS or IFRS texts.

Consequently, this report only refers to amended and future standards that affect the HYPO NOE Group's financial statements; a list of newly amended standards is not provided. Additionally, immaterial notes have been omitted in order to improve readability. As the structures for financial statements set out in IAS 1 do not meet the needs of a bank, breakdowns based on the structure of items for a bank, as well as totals and subtotals, are presented in a manner that reflects financial circumstances.

In the course of implementing the Disclosure Initiative, the HYPO NOE Group reclassified assets under construction in connection with future lease receivables as other assets – these were previously included under loans and advances to customers – in order to improve the presentation of interest-bearing loans and advances and those that are yet to become interest-bearing. The notes provide information on the corresponding changes to last year's figures.

NEW AND AMENDED STANDARDS ADOPTED, BUT NOT YET APPLIED, WHICH ARE CURRENTLY EXPECTED TO AFFECT THE HYPO NOE GROUP'S FINANCIAL STATEMENTS

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:

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

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

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

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

Classification project

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

In 2016, a preliminary classification was made for the IAS 39 portfolios on this basis. With a few exceptions, loans and advances to banks and to customers will be measured at amortised cost. During the classification project, a small proportion of such loans and advances were identified that do not meet the classification criteria (solely payments of principal and interest, SPPI) or, in the case of fixed interest rates that deviate from the standard, do not pass the internally applied benchmark test, and consequently cannot be recognised at amortised cost. A final assessment of the proportion of such assets and their effects on the accounts will be carried out in 2017.

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

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

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

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

Impairment project

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

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

Impairment is measured on the basis of the following principles:

- **Stage 1** 12-month credit losses: expected credit losses resulting from default events on a financial instrument that are possible within the 12 months after the reporting date, based on the expected 12-month risk of default and the actual expected loss in the event of default.
- **Stage 2** Lifetime expected credit losses: the expected credit losses that result from all possible default events over the expected residual life of a financial instrument, also taking into account expected deteriorations in creditworthiness due to expected macroeconomic conditions.The entire lifetime expected loss must be recognised for instruments where the risk of default has increased significantly since their addition. The level of significance can be determined by the entity. Lifetime credit losses are applied to trade receivables and for loans and advances that do not include material financing components.
- **Stage 3** Impairment of loans in default: the scenario-weighted impairment loss is calculated on the basis of the expected returns, taking the liquidation of collateral into account.

The Group carried out analyses in the course of the impairment project, and assumes that impairments will increase and become more volatile following application of IFRS 9. Initial analysis, which is still to be completed, points to a negative effect from first-time application. The application of requirements for risk provisions under IFRS 9 will lead to a reduction in own funds in accordance with IFRS.

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

Hedges

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

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

Preliminary appraisal under the IFRS 9 project suggests that the Group's current hedge accounting methods will most likely meet the requirements of IFRS 9 if the Group implements certain intended changes in its internal documentation and monitoring procedures.

Notes and regulatory reporting

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

The preliminary assessment includes an analysis to identify the additional data that will be required. The HYPO NOE Group plans to introduce a number of systemic changes that are essential for capturing the necessary data. From a regulatory perspective, the increased workload resulting from implementation of IFRS 9 will mainly be connected with preparing information for the supervisory reporting and completing the amended FINREP IFRS 9 templates. The final versions of these templates will not be available until March or April 2017.

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

Transitional provisions

Amendments to IFRS 9 will be applied retrospectively, unless:

- the HYPO NOE Group intends to make use of the exception under which it may choose not to adjust comparative figures from previous periods with regard to changes in classification and measurement (including impairment); differences between the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 are recognised in retained earnings and other reserves as at 1 January 2018.
- In principle, new hedge accounting provisions are applied prospectively. However, there is an option to retrospectively apply the expected change in relation to forward points. A final decision on this matter is still to be taken.

IFRS 15 Revenue from Contracts with Customers – mandatory for reporting periods beginning on or after 1 January 2018

The standard specifies when and in what amount reporting entities must recognise revenue. IFRS 15 supersedes the following standards and interpretations:

IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, and 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. 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.

Contracts with customers are reported as liabilities, assets or receivables in the statement of financial position. This depends on the relationship between fulfilment of the entity's performance obligation and payment by the customer. A contract liability is recognised if the customer has paid the consideration before the entity supplies the goods or performs the services in question. In contrast, if the entity has supplied goods or performed services and the customer has not yet paid the consideration, a contract asset or a receivable is recognised in the statement of financial position. Contract assets and receivables are accounted for in accordance with IFRS 9.

IFRS 15 applies to all contracts with customers, except:

- lease contracts within the scope of IAS 17 Leases;
- financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures;
- insurance contracts within the scope of IFRS 4 Insurance Contracts;
- non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

As a banking group that as of 31 December 2016 no longer included any property development companies within the scope of consolidation (IFRIC 15 was previously applicable), the key issues are the reporting of interest, dividends and commissions. The provisions of IFRS 15 that contain the most significant changes, such as those in connection with the sale of goods and construction contracts, are of minor importance for the HYPO NOE Group.

The Group does not intend to apply IFRS 15 early, and will instead apply the standard from 1 January 2018. The required supplementary disclosures in the notes will be assessed by the Group in conjunction with the IAS 1 Disclosure Initiative, and on the basis of their materiality.

IFRS 16 Leases – mandatory for reporting periods beginning on or after 1 January 2019

IFRS 16 supersedes the current standards on leases (IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Early application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at the same time as or prior to application of IFRS 16. The Group intends to apply IFRS 16 from 1 January 2019.

Lessee

IFRS 16 introduces a single accounting model by which leases are recognised in the lessee's statement of financial position. The lessee recognises a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. There are exceptions for short-term leases and leases where the underlying asset is of low value.

From the HYPO NOE Group's perspective, the changes will affect tenancy agreements relating to properties owned by third parties (e.g. for bank branches). In this regard, the Group has carried out a preliminary analysis that did not suggest any evidence of significant effects on total assets.

Upon application on 1 January 2019, as a lessee the HYPO NOE Group may adopt:

- a retrospective approach, or
- a modified retrospective approach with optimum practical simplification rules.

As things stand, the Group has not yet decided which transitional approach it will adopt.

Lessor

The accounting requirements for lessors under IFRS 16 are comparable to those of the current standard, i.e. lessors will continue to classify leases as either operating or finance leases. As the HYPO NOE Group mainly accounts for finance leases through project companies in accordance with IAS 17, an initial assessment indicates that the transition to IFRS 16 will not have any impact.

3. ACCOUNTING AND MEASUREMENT POLICIES

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2016 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, which contains disclosures pursuant to the provisions on the operational and financial review in section 267 Austrian Business Code, is part of the notes.

The consolidated financial statements are based on the separate financial statements of all the consolidated Group companies as at 31 December 2016, prepared in accordance with IFRS. The HYPO NOE Group uses uniform Group-wide accounting policies.

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

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.

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.

Estimation uncertainty and judgements

All the estimates and judgements required by IFRS are best estimates made in accordance with the relevant standards. The estimates are reviewed on an ongoing basis, and are based on experience and other factors including expectations regarding future events that appear reasonable under the circumstances. Particularly frequent use of estimates and assumptions was made when valuing investments, valuing the EWU Group (see Note 3.2.3 Associates and joint ventures), assessing inclusion in the scope of consolidation (Note 3.1 Basis of consolidation), recognising deferred tax assets attributable to tax loss carryforwards (Note 3.17 Tax assets and liabilities), recognising credit provisions (estimating recoverable amounts and calculating default probabilities; Note 3.12 Risk provisions), recognising provisions (Note 3.13 Provisions, in particular regarding the discount rate used in connection with employee benefits, and Note 6.24.2 Disclosures on employee benefits), as well as performing fair value measurement (on the basis of observable market data; Note 8.1.2 Fair value hierarchy disclosures).

In order to determine materiality, a materiality threshold is set each year on the basis of the annual financial statements for the preceding years. Using figures from the statement of financial position and statement of profit or loss to determine the materiality threshold is intended to ensure that all of the relevant factors have been incorporated in the annual financial statements. The calculation serves as an indicator that enables the Group to estimate and evaluate materiality. The final assessment of materiality also takes account of qualitative factors and special circumstances.

Where estimates and judgements were necessary in respect of certain items, the assumptions made are explained in the corresponding notes.

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 Group comprises a total of 69 Austrian subsidiaries in which the parent meets the criteria for control. Besides the parent, a total of 73 Austrian subsidiaries were included in consolidation in the previous reporting period.

In addition, 31 Austrian and five foreign companies are accounted for using the equity method. In 2014, 16 Austrian and six foreign companies were accounted for in the Group's consolidated financial statements using the equity method.

The Group's interests 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 as a result the criteria for a parent company are met. Control exists when all three of the following 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 returns

Material operating subsidiaries are included in the consolidated financial statements from the date the HYPO NOE Group obtains control to the date on which control is no longer exercised. The Group regularly assesses whether certain facts or circumstances indicate that one or more of the aforementioned conditions for control are no longer fulfilled.

Consolidation is performed in accordance with IFRS 3 Business Combinations, using the acquisition method. The identifiable assets acquired, liabilities assumed and non-controlling interests are recognised at fair value as at the acquisition date. Any excess of the cost over the fair value of the net assets acquired is reported as goodwill (i.e. as an intangible asset; see Note 3.10 Intangible assets, and property, plant and equipment). Negative differences are recognised directly in profit or loss following an additional review. The carrying value of 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 consolidated financial statements prepared in accordance with the Austrian Business Code 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 over time 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 reported separately in the consolidated statement of changes in equity, and also after profit/loss for the year in the statement of comprehensive income, under 5.15 Non-controlling interests.

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

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 that diverge from those of the Group, adjustments are made to align the investee's accounting policies to the Group's IFRS policies. Joint ventures and associates are reported under a separate item in the statement of financial position (see Note 6.10 Investments accounted for using the equity method), and under net gains or losses on investments accounted for using the equity method in the statement of comprehensive income.

Interests in non-consolidated subsidiaries and other investments are measured at fair value or at amortised cost. Specific writedowns are recognised for impairment and are reported under Notes 6.8 Available-for-sale financial assets and 3.2 Investments.

Changes in 2016

Mergers

The merger of SRE Immobilien Deutschland GmbH, an AFS investment, with SRE Immobilien GmbH was completed with the entry of the transaction in the register of companies on 15 July 2016; the merger had no material effect on the consolidated financial statements.

Acquisitions/name changes

Under a purchase agreement signed on 3 February 2016, HYPO NOE Leasing GmbH acquired the 50% of NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H. that it did not already own. The latter was reported as an AFS investment (non-operating shell company) in 2015, and is included in these consolidated financial statements because it has commenced operations. The renaming of NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H. as ARTES Grundstückverwaltungs GmbH was registered on 30 July 2014.

Change in consolidation

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

Disposal

The sale of a 52% interest in wholly-owned subsidiary NOE Immobilien Development AG (NID), which was formed on 21 November 2015, to external investors was entered in the register of companies on 30 December 2016, meaning that the Group relinquished control over NID. From the HYPO NOE Group's viewpoint, as a result of the spin-off, NID and its investments now constitute an independent group of connected clients as defined by Article 4(1)(39) Capital Requirements Regulation (CRR), as there is no relationship of control or economic dependence.

The remaining 48% interest in NOE Immobilien Development AG is accounted for in these annual financial statements in the form of the consolidated financial statements of NOE Immobilien Development AG, using the equity method.

The registration of NOE Immobilien Development AG (NID) on 21 November 2015 as a wholly-owned subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH laid the foundations for consolidation of the Group's property portfolio, with the aim of creating investor-friendly structures and facilitating the implementation of development projects currently at the planning stage. At its meeting of 29 June 2016, the Supervisory Board of HYPO NOE Gruppe Bank AG passed a resolution approving the sale of part of the Bank's majority interest in NOE Immobilien Development AG to a maximum of five external investors. At the end of 2016 NID was in a position to be sold, as the groundwork had been laid for completion of the transaction on 27 December 2016. The transaction was registered on 30 December 2016.

NID and its development projects, as well as previously consolidated project companies and holding companies that form part of this structure, are treated as deconsolidated entities in this report.

The following portfolio restructuring events and formations took place during the reporting period.

The following companies were founded as fully-owned subsidiaries of NID:

- NID Bestandsliegenschaften GmbH, registered on 9 September 2016
- Porzellangasse 64 Bestandsliegenschaften GmbH, registered on 18 November 2016
- Kremser Gasse 35 Bestandsliegenschaften GmbH, registered on 18 November 2016
- Dominikanerplatz 2 Bestandsliegenschaften GmbH, registered on 18 November 2016
- Tauchnergasse 1-7 Immobilienentwicklung GmbH, registered on 22 November 2016
- Quadrant Projektentwicklungsgesellschaft mbH, registered on 4 December 2015
- NID Beteiligungs GmbH, registered on 18 February 2016

NID holds a 25% interest in the following company:

- wvg "Projekt Brauhausstraße 6-8" Errichtungsgesellschaft m.b.H.

The following previously consolidated companies were included in NID's ownership structure, and are recognised in this report as deconsolidated:

- Steinmüllergasse 64 Development GmbH, previously a 97% subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH, registered on 14 December 2016: 25% subsidiary of NID Beteiligungs GmbH, 75% subsidiary of NOE Immobilien Development AG
- Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH, previously a 90% subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH, registered on 10 December 2016: 90% subsidiary of NOE Immobilien Development AG; 10% was acquired from external investors by NID Beteiligungs GmbH for EUR 120thsd and registered on 14 June 2016.
- Neustift-am-Walde 32 Immobilienentwicklung GmbH, previously a 90% subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH, registered on 14 December 2016: 90% subsidiary of NOE Immobilien Development AG; 10% was acquired from external investors by NID Beteiligungs GmbH for EUR 73thsd and registered on 23 June 2016.
- Haymogasse 102 Immobilienentwicklung GmbH, previously a 90% subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH, registered on 10 December 2016: 90% subsidiary of NOE Immobilien Development AG; 10% was acquired from external investors by NID Beteiligungs GmbH for EUR 91thsd and registered on 14 June 2016.
- Stettnerweg 11-15 Liegenschaftsentwicklungs GmbH, previously a wholly-owned subsidiary of HYPO Niederösterreichische Liegenschaft GmbH, demerged by way of a resolution registered on 24 December 2016: 75% subsidiary of NOE Immobilien Development AG, 25% subsidiary of NID Beteiligungs GmbH
- Hauptplatz 18 Entwicklungs- und Verwertungs GmbH, previously a 64% subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH, registered on 10 December 2016: 64% subsidiary of NOE Immobilien Development AG; 36% was acquired by NID Beteiligungs GmbH from external investors for EUR 574thsd and registered on 14 September 2016.

Further information on disposals can be found in Note 5.8 Net gains or losses on disposal of consolidated subsidiaries.

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 2016:

Company name	Domicile	Interest	of which indirect	Reporting date	Segment
69 consolidated subsidiaries					
HYPO NOE Gruppe Bank AG	St. Pölten			31 Dec. 2016	Gruppe Bank
HYPO NOE Landesbank AG	St. Pölten	100.00%	-	31 Dec. 2016	Landesbank
HYPO NOE Leasing GmbH	St. Pölten	100.00%	-	31 Dec. 2016	Leasing
CALCULATOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2016	Leasing
CURIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2016	Leasing
FAVIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
NÖ. Verwaltungszentrum - Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
PROVENTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
Sana Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
Telos Mobilien - Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
Treisma Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
VIA-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
FORIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2016	Leasing
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	31 Dec. 2016	Leasing
HYPO Niederösterreichische Liegenschaft GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Other
NEUROM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
NÖ. HYPO LEASING URBANITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
AELIUM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
NÖ. HYPO LEASING Landeskliniken Equipment GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Other
NÖ. HYPO LEASING AGILITAS Grundstücksvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2016	Leasing
ALARIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2016	Leasing
CALLIDUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
CLIVUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
COMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
NÖ. HYPO LEASING FIRMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
NÖ. HYPO LEASING GERUSIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2016	Leasing
ARTES Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing

Company name	Domicile	Interest	of which indirect	Reporting date	Segment
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2016	Leasing
PINUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	99.00%	99.00%	31 Dec. 2016	Leasing
NÖ. HYPO LEASING STRUCTOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2016	Leasing
VIRTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	65.00%	65.00%	31 Dec. 2016	Leasing
Adoria Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2016	Leasing
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2016	Leasing
VESCUM Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
VITALITAS Grundstückverwaltung GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
METIS Grundstückverwaltungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	31 Dec. 2016	Leasing
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	31 Dec. 2016	Leasing
SATORIA Grundstückvermietung GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	66.67%	66.67%	31 Dec. 2016	Leasing
Landeskrankenhaus Tulln-Immobilienvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	56.42%	31 Dec. 2016	Leasing
Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Other
HYPO-REAL 93 Mobilien-Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
NÖ. HYPO LEASING MENTIO Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
NÖ. HYPO LEASING NITOR Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
NÖ. HYPO LEASING MEATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2016	Leasing
NÖ. HYPO LEASING ASTEWOG Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2016	Leasing
NEMUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2016	Leasing
HYPO NOE Real Consult GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Other
HYPO NOE Immobilienmanagement GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Other
HBV Beteiligungs-GmbH	St. Pölten	100.00%	-	31 Dec. 2016	Other
ZELUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2016	Other
Benkerwiese Mietergemeinschaft GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Other
HYPO NOE First Facility GmbH	Vienna	100.00%	100.00%	31 Dec. 2016	Other
HYPO NOE Versicherungsservice GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Landesbank
Strategic Equity Beteiligungs-GmbH	St. Pölten	100.00%	49.00%	31 Dec. 2016	Other
Strategic Real Estate GmbH	Vienna	100.00%	49.00%	31 Dec. 2016	Other
SRE Immobilien GmbH	Vienna	100.00%	100.00%	31 Dec. 2016	Other
HYPO NOE Valuation & Advisory GmbH	St. Pölten	100.00%	10.00%	31 Dec. 2016	Other
HYPO NOE Immobilien Beteiligungsholding GmbH	St. Pölten	100.00%	-	31 Dec. 2016	Other
HYPO Omega Holding GmbH	St. Pölten	100.00%	-	31 Dec. 2016	Leasing

Company name	Domicile	Interest	of which indirect	Reporting date	Segment
HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Leasing
HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Other
HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Other
HYPO Delta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2016	Other

3.2.2 Summary 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. Due to changes in the scope of consolidation, there were no longer any subsidiaries with non-controlling interests in the Other segment as at 31 December 2016. The share of non-controlling interests in the profit or loss of each company is shown under Note 5.15. 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. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Loans and advances to banks	284	390	-	-
Loans and advances to customers	531,235	488,232	-	-
Investment property	-	-	-	5,602
Current tax assets	974	2	-	-
Deferred tax assets	115	-	-	-
Other assets	52,528	3,844	-	10,263
Total assets	**585,136**	**492,468**	**-**	**15,865**
Deposits from banks	431,092	440,401	-	8,045
Deposits from customers	81,904	14,955	-	1,035
Current tax liabilities	-	-974	-	-
Deferred tax liabilities	5,407	4,853	-	137
Other liabilities	46,028	13,130	-	937
Subordinated capital	2,907	2,907	-	-
Equity	17,798	17,196	-	5,711
Equity attributable to owners of the parent	9,379	9,049	-	5,234
Non-controlling interests	8,419	8,147	-	477
Total equity and liabilities	**585,136**	**492,468**	**-**	**15,865**

Dividends of EUR 261thsd were distributed to non-controlling interests in 2016. After adjustment for non-cash components of assets and liabilities, an immaterial cash flow contribution was recognised in the consolidated statement of cash flows.

3.2.3 Associates and joint ventures

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 significant influence is obtained. In subsequent periods the carrying amount of the holdings is adjusted for changes in equity and the entire material carrying amount is tested for impairment (see Note 6.10 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 when 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 may be deconsolidated and reported as available-for-sale financial assets (see Note 6.8). Such AFS investments are regularly reviewed for factors that may require the investment to be consolidated or accounted for using the equity method.

The Group's share of the annual profit or loss, and any impairment losses or reversals of impairment losses are recorded under net gains or losses on investments accounted for using the equity method. Exchange differences from investments accounted for using the equity method are reported as part of consolidated equity under the currency translation reserve item.

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.

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

Management board positions held by key management personnel as well as other details are provided in Note 8.5 Disclosures on related-party relationships.

The following joint ventures are included in the Leasing segment. Joint 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 contribute to other comprehensive income.

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	267	10	31 Dec. 2016
				392	3	31 Dec. 2015
Viminal Grundstückverwaltungs Gesellschaft m.b.H.	Vienna	50.00%	50.00%	-	-	31 Dec. 2016
				-	-46	31 Dec. 2015

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	1,054	-25	30 Sep. 2016
				1,087	2	30 Sep. 2015

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.

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	2,632	749	31 Dec. 2016
				2,012	304	31 Dec. 2014

The following joint ventures are included in the Other segment.

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
BSZ Eisenstadt Immobilien GmbH	St. Pölten	50.00%	50.00%	-	-	31 Dec. 2016
				-	-10	31 Dec. 2015
Joint ventures - subtotal as at 31 Dec. 2016				**3,953**	**733**	
Joint ventures - subtotal as at 31 Dec. 2015				**3,491**	**254**	

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

The positions held by key management personnel on the management boards of associates as well as other details are provided in Note 8.5 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 is provided below. Associates in which the Gruppe Bank segment has an interest do not share in other comprehensive income.

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
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%	Included in EWU consolidated financial statements		
GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H.	Mödling	42.60%	42.60%	Included in EWU consolidated financial statements		
NÖ Wohnbaugruppe Service GmbH	Mödling	43.91%	43.91%	Included in EWU consolidated financial statements		
EWU Wohnbau Unternehmens-beteiligungs-Aktiengesellschaft (consolidated financial statements)	St. Pölten	44.79%	-	7,373	-6,398	31 Dec. 2016
				13,892	-5,859	31 Dec. 2015
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	1,411	586	31 Dec. 2015
				1,294	410	31 Dec. 2014

The following two associates form part of the Leasing segment. These companies do not contribute to the Group's other comprehensive income.

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	673	1	31 Dec. 2016
				673	8	31 Dec. 2015
NÖ. Landeshauptstadt – Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	291	-42	31 Dec. 2015
				332	3	31 Dec. 2014

The table below shows the associates in the Other segment. Where the segment's interest is below 50%, the associate is accounted for using the equity method due to the existence of a significant influence, and where the segment's interest is over 50% the associate is also accounted for using the equity method due to materiality.

The share of other comprehensive income attributable to currency translation, at EUR 23thsd (31 Dec. 2015: loss of EUR 13.2thsd), relates to translation of the results of foreign associates in the Other segment.

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Quadrant Projektentwicklungsgesellschaft mbH	St. Pölten	48.00%	48.00%			
NID Beteiligungs GmbH	St. Pölten	48.00%	48.00%			
NID Bestandsliegenschaften GmbH	St. Pölten	48.00%	48.00%			
Porzellangasse 64 Bestandsliegenschaften GmbH	St. Pölten	48.00%	48.00%			
Kremser Gasse 35 Bestandsliegenschaften GmbH	St. Pölten	48.00%	48.00%			
Dominikanerplatz 2 Bestandsliegenschaften GmbH	St. Pölten	48.00%	48.00%			
Tauchnergasse 1-7 Immobilienentwicklung GmbH	St. Pölten	48.00%	48.00%			
wvg "Projekt Brauhausstraße 6-8" Errichtungsgesellschaft m.b.H.	Vienna	12.00%	12.00%	im Konzernabschluss NID enthalten		
Steinmüllergasse 64 Development GmbH	St. Pölten	48.00%	48.00%			
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	St. Pölten	48.00%	48.00%			
Neustift-am-Walde 32 Immobilienentwicklung GmbH	St. Pölten	48.00%	48.00%			
Haymogasse 102 Immobilienentwicklung GmbH	St. Pölten	48.00%	48.00%			
Stettnerweg 11-15 Liegenschaftsentwicklungs GmbH	St. Pölten	48.00%	48.00%			
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	St. Pölten	48.00%	48.00%			
NOE Immobilien Development AG	St. Pölten	48.00%	48.00%	14,752	-	31 Dec. 2016
Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH	St. Pölten	50.00%	50.00%	-	-	31 Dec. 2016
				-	-46	31 Dec. 2015
Ernst Hora Elektroinstallationen Gesellschaft m.b.H.	Vienna	100.00%	100.00%	-	-	31 Dec. 2015
				-	-	31 Dec. 2014
first facility Ingatlankezelö Korlátolt Felelösségü Társaság	Budapest	100.00%	100.00%	909	201	31 Dec. 2015
				607	-119	31 Dec. 2014
first facility Imobilie SRL	Bucharest	55.00%	55.00%	-	-50	31 Dec. 2015
				95	94	31 Dec. 2014

EUR '000 Company name	Domicile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
				425	62	31 Dec. 2015
first facility Bulgaria EOOD	Sofia	100.00%	100.00%	413	103	31 Dec. 2014
				-	-	31 Dec. 2015
first facility Macedonia dooel	Skopje	100.00%	100.00%	-	-10	31 Dec. 2014
				119	10	31 Dec. 2015
first facility - Slovakia s.r.o.	Bratislava	100.00%	100.00%	119	4	31 Dec. 2014
				17	97	31 Dec. 2015
Niederösterreichische Facility Management GmbH	Wiener Neustadt	40.00%	40.00%	-	5	31 Dec. 2014
Associates - subtotal at 31 Dec. 2016				**25,969**	**-5,532**	
Associates - subtotal at 31 Dec. 2015				**17,425**	**-5,407**	

In both 2015 and 2016, one associate was deconsolidated

Other segment:

EUR '000 Company name	Dom-icile	Interest	of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
		Deconsolidated in 2016		-	-14	31 Mar. 2016
Haring Liegenschaftsentwicklungs GmbH	Vienna	25.00%	25.00%	22	322	31 Dec. 2015
first facility d.o.o	Bel-grade	Deconsolidated in 2015		-	87	20 Apr. 2015
Deconsolidated associates - subtotal at 31 Dec. 2015				**0**	**-14**	
Deconsolidated associates - subtotal at 31 Dec. 2015				**22**	**409**	

For further details on the following totals, see Note 6.10 Investments accounted for using the equity method, as well as the information on net gains or losses on investments accounted for using the equity method.

Investments accounted for using the equity method - total at 31 Dec. 2015	**29,922**	**-4,813**
Investments accounted for using the equity method - total at 31 Dec. 2015	**20,937**	**-4,744**

Detailed disclosures on material joint ventures accounted for using the equity method and associates

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.
- NÖ Wohnbaugruppe Service GmbH

The following sub-group, including its subsidiaries, forms part of the Other segment and is reported as an associate accounted for using the equity method:
- NOE Immobilien Development AG

with its subsidiaries
- Steinmüllergasse 64 Development GmbH
- Hauptplatz 18 Entwicklungs- und Verwertungs GmbH
- Haymogasse 102 Immobilienentwicklung GmbH
- Neustift-am-Walde 32 Immobilienentwicklung GmbH
- Stettnerweg 11-15 Liegenschaftsentwicklungs GmbH
- Quadrant Projektentwicklungsgesellschaft mbH
- NID Beteiligungs GmbH
- NID Bestandsliegenschaften GmbH
- Porzellangasse 64 Bestandsliegenschaften GmbH
- Dominikanerplatz 2 Bestandsliegenschaften GmbH
- Kremser Gasse 35 Bestandsliegenschaften GmbH
- Tauchnergasse 1-7 Immobilienentwicklung GmbH
- Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH

The significant influence over EUW is partly 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 personnel on the management boards of associates and joint ventures, as well as other details are provided in Note 8.5 Disclosures on related-party relationships.

As a separate financial services provider and employee benefit 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. Consolidation is performed using the company’s provisional Austrian Business Code financial statements.

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. These 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 surplus must be used for charitable purposes. With respect to 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 Act. These are reported as adjustment items pursuant to the capital protection provisions in the 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 adjustment 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.

IAS 36 states that the value of a company's assets as reported in the statement of financial position may not exceed their recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and the value in use of an asset.

As regards measurement, it should be noted that owing to the EWU Group's non-profit status and the applicable legislation, conventional company valuation methods are of limited relevance.

Under paragraph 6 IAS 36 in conjunction with paragraph 5 IFRS 13, an objective (market) value must be ascertained as the basis for calculating fair value less costs of disposal.

Due to the restrictive provisions of the Non-profit Housing Act with regard to the generation and use of profits, use of a market valuation method would be inappropriate. The HYPO NOE Group has adopted a value-in-use approach that reflects the special characteristics of non-profit construction companies.

Value in use is the present value of the future cash flows expected to be derived from the use of an asset (paragraphs 30ff. IAS 36).

The Group calculates value in use of the investment in the EWU Group with reference to the following value components:

a) Benefits arising from expected future lending to the EWU Group that have not yet been recognised, comprising surplus cash flows generated at Group level;
b) The present value of expected dividends from EWU Group companies that flow directly to the HYPO NOE Group.

a) Benefits arising from future new lending business

The HYPO NOE Group calculates the benefits of future lending (i.e. new business still to be generated) by first identifying the relevant surplus cash flows on the basis of the expected level of new lending (existing loans due to mature are offset by new loans in this model) and the average net margin on new lending. These surplus cash flows are then discounted on the basis of the perpetual annuity model, applying a discount rate.

The assumed realisable and sustainable level of new lending is determined by the relevant market department/large-scale housing construction, taking market conditions into account.

In order to factor inflation into future new lending trends, it is assumed that nominal funding needs will steadily increase due to rising construction and maintenance costs (materials and labour).

Average income is based on projected earnings for the 2017-2021 period in accordance with the medium-term planning parameters.

The net margin is derived from internal estimates of the existing business of the EWU Group companies over time, according to medium-term planning assumptions last updated at the end of 2016 (average business volume, commissions, contribution to margin, liquidity costs and the imputed cost of risk). Average income less other costs is calculated on the basis of the return in each of the years covered in the projection (2017-2021). Medium-term planning is Management's core managerial and budgeting tool.

Unit costs, the (economic) cost of equity capital and reductions in income (due to taxes) are calculated separately and taken into account when estimating effective surplus cash flows.

Average income before tax and after other costs is used to arrive at the additional benefits from new lending. The net margin after tax is calculated on this basis, taking account of nominal corporation tax and the financial stability contribution. It is assumed that the net margin remains constant throughout the planning period.

The Group calculates the applicable discount rate for surplus cash flows using the capital asset pricing model (CAPM), i.e. cost of equity = risk-free interest rate + beta factor x market risk premium).

The overall discount rate applied by the Group for the benefits arising from future new lending is 4.75% (2015: 4.78%).

Budgeted new lending and the net margin are used to calculate the annual financial surplus. Because it is assumed that the net margin remains constant over the entire planning period, the evolution of new lending is the main value driver for added benefits from lending to the EWU Group.

The value of the benefits from future lending recognised in the consolidated financial statements as at 31 December 2016, calculated on the basis of the methods and parameters described above, is EUR 5,843thsd (2015: EUR 12,690thsd).

The year-on-year reduction in the value of the benefits from future new lending is due to a decrease in the projected level of new lending (down by approx. 44% compared with 2015). Among other factors, the new Basel rules for large exposures, which represent a significant restriction on continued business growth from 2019 onwards, were taken into account in the valuation model, which is reflected in the reduced projected level of new lending.

b) Net present value of expected dividends

The HYPO NOE Group uses the net asset value (NAV) method as the basis for the valuation of the EWU Group, applying the dividend discount model (DDM). NAV is a form of intrinsic value that is equal to the total value of all of an entity's tangible and intangible assets less its liabilities.

As a holding company for investments, the ability of the EWU Group to generate cash flows is determined by its financial assets, which are equity investments.

For this reason, the HYPO NOE Group recognised the EWU Group's four investments at market value in the NAV calculation. Market values are calculated using the dividend discount model, taking into account the restrictions imposed by the Non-profit Housing Act with regard to annual dividend payments by non-profit housing developers. The model is used to determine the value of equity by calculating the present value of future expected dividends. Under the applicable legislation, annual dividend payments are based on the share capital employed, and the return may not exceed 3.5%. Because of this 3.5% was taken as the figure for sustainable and distributable earnings in the long term, and forms the basis for calculating the fair value of equity. Sustainable earnings (dividends) were calculated for the four equity investments.

The Group calculates the applicable discount rate for dividends using the CAPM (see above).

The overall discount rate applied by the Group to obtain the present value of dividend payments is 6.52% (2015: 7.31%).

The Group's share of 44.8% of the present value of expected dividends from the EWU Group was equivalent to EUR 1,528thsd as at 31 December 2016 (2015: EUR 1,201thsd). This increase as compared to the previous reporting period primarily reflects the lower discount rate applied in 2016.

The total value in use – comprising a) the benefits from new lending and b) the present value of expected dividends – is EUR 7,372thsd (2015: EUR 13,892thsd).

The **NOE Immobilien Development AG** (NID AG) group specialises in property development, housing construction and neighbourhood development, with a focus on Lower Austria, Vienna and the Danube region. It mainly invests in intergenerational residential construction schemes forming part of municipal urban development projects.

The basis for the initial disclosure of financial information is the fair value of the NID AG group's IFRS equity (EUR 14,752thsd), stated under net gains or losses on disposal of consolidated subsidiaries (Note 5.8), and the delta amount (EUR 1,271thsd) arising from the disposal of NID AG and its inclusion as an investment accounted for using the equity method, and reported under the "Goodwill allocated to assets" item. This amount, attributable to the start-up losses of the individual project companies from previous periods that do not qualify for capitalisation, was allocated to assets at project-company level. The changes in this amount are the exact opposite of the income generated by the projects, meaning that the amount will be reversed over subsequent periods.

With an interest of 48%, the Group has sufficient voting rights to influence the company's core activities.

Summary financial information on the material associates is provided in the table below.

Detailed disclosures on associates and joint ventures accounted for using the equity method

	Niederösterreichische Vorsorgekasse AG		EWU Wohnbau Unternehmensbeteili-gungs-Aktiengesellschaft (consolidated financial statements)		NOE Immobilien Development AG (consolidated financial statements)	
Proportion of ownership	**49.00%**	**49.00%**	**44.79%**	**44.79%**	**48.00%**	**-**
EUR '000 as at date of consolidated financial statements	**31 Dec. 2016**	**31 Dec. 2015**	**31 Dec. 2016**	**31 Dec. 2015**	**31 Dec. 2016**	**31 Dec. 2015**
Non-current assets	6,063	5,072	1,503,671	1,472,279	60,304	-
Current assets	142	44	154,019	133,520	17,275	-
of which cash and cash equivalents	*81*	*44*	*89,561*	*76,682*	*16,788*	-
Long-term borrowings	-3	-1	-1,530,401	-1,495,482	-20,362	-
Short-term borrowings	-569	-763	-24,259	-21,711	-29,132	-
Net assets (100%)	**5,634**	**4,352**	**103,030**	**88,606**	**28,085**	**-**
Group share of net assets	**2,761**	**2,132**	**46,147**	**39,687**	**13,481**	**-**
Adjustment items pursuant to the capital protection provisions in the Non-profit Housing Act	-	-	-38,653	-25,735	-	-
Goodwill allocated to assets	-	-	-	-	1,271	-
Dividends received	-129	-120	-122	-60	-	-
Carrying amount of interests in associates	**2,632**	**2,012**	**7,372**	**13,892**	**14,752**	**-**
EUR '000 – profit/loss as basis for inclusion in annual report	**31 Dec. 2016**	**31 Dec. 2015**	**31 Dec. 2016**	**31 Dec. 2015**	**31 Dec. 2016***	**31 Dec. 2015**
Net interest income	170	165	426	546	4	-
Other income	2,952	2,092	152,179	130,692	795	-
Operating expense	-1,382	-1,429	-138,198	-121,591	-2,093	-
Profit for the year before tax	1,739	828	14,407	9,647	-1,293	-
Income tax expense	-212	-207	-10	-7	321	-
Profit for the year (100%)	**1,528**	**621**	**14,397**	**9,640**	**-972**	**-**
Group share of adjustment items pursuant to the capital protection provisions of the Non-profit Housing Act – impairment	-	-	-12,846	-10,177	-	-
Group share of profit/loss	**749**	**304**	**-6,398**	**-5,859**	**-**	**-**

* For information purposes only: no measurement gains or losses from the NID AG group since the carrying amount was equal to the fair value at the time of the transaction.

3.2.4 Interests in excess of 20% in associates classified as financial instruments in accordance with IAS 39

The following companies are reported as available-for-sale investments where the Group's interest is in excess of 20%. An internal evaluation of Castellum Schallaburg Grundstückvermietungs Gesellschaft m.b.H., VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H. and Wilax Wien-Laxenburg NÖ Veranstaltungs Gesellschaft mbH found that the Group did not exercise control over these companies in the meaning of IFRS 10 or significant influence in the meaning of IAS 28, and they were therefore not consolidated nor accounted for using the equity method. In the case of NÖ Kulturwirtschaft GesmbH, the Group does not exercise significant influence in the meaning of IAS 28, so the company is not accounted for using the equity method. As the other companies are immaterial, they are reported as AFS investments in which the Group has interests of over 20%.

Non-consolidated AFS investments (interest in excess of 20%)

Company name	Domicile	Interest	of which indirect
Castellum Schallaburg Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H.	St. Pölten	95.00%	95.00%
Wilax Wien-Laxenburg NÖ Veranstaltungs Gesellschaft mbH	St. Pölten	100.00%	100.00%
NÖ Kulturwirtschaft GesmbH. (consolidated financial statements)	St. Pölten	40.52%	40.52%
Psychosoziales Zentrum Schiltern Gesellschaft m.b.H.	Langenlois-Schiltern	26.67%	-
EFH-Beteiligungsgesellschaft m.b.H.	Vienna	50.00%	-
SPORTZENTRUM Niederösterreich GmbH	St.Pölten	49.00%	49.00%
CULINA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%
FACILITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%
TRABITUS Grundstückvermietungs Gesellschaft m.b.H.	Vienna	50.00%	25.00%
UNDA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%
Purge Grundstücksverwaltungs-Gesellschaft m.b.H.	Vienna	50.00%	50.00%
NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. & NÖ.HYPO Leasinggesellschaft m.b.H. - Strahlentherapie OG	St. Pölten	50.00%	50.00%
N.Ö. Gemeindegebäudeleasing Gesellschaft m.b.H. in Liquidation	Vienna	33.30%	-
N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-
NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-
Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	33.33%	-
KASERNEN Projektentwicklungs- und Beteiligungs GmbH	Vienna	25.00%	-
Haring Liegenschaftsentwicklungs GmbH	Vienna	25.00%	25.00%

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 price paid for an asset or for the transfer of a debt 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. Common 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 cannot be reliably measured.

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 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13).

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 option valuation 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 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 6.3 Loans and advances to banks, Note 6.4 Loans and advances to customers and Note 3.8 Lease accounting).

Loans and receivables are measured at amortised cost (gross), and impairments are recognised as credit provisions, under "Risk provisions" (Note 6.5 Risk provisions and credit provisions).

Additional information on the fair value of loans and receivables measured at amortised cost is given under Note 8.1 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 (see Note 6.6 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 (see Note 5.5 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 provided under Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

3. Available-for-sale (AFS) financial assets

This is a residual category to which all non-derivative financial assets are assigned that are not classified in any other 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 (interest over 50%), holdings in associates (interest of 20-50%) and other investments (interest less than 20%). For further information, see Note 6.8 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 recognised in profit or loss over the remaining life of the asset using the effective interest method. In the event of impairments attributable to credit ratings, an impairment loss is recognised (see Note 5.9 Net gains or losses on available-for-sale financial assets). If impairment losses are reversed, 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).

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 (see Note 6.9 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.) It 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 net gains or losses on financial assets designated as at fair value through profit or loss (see Note 5.10).

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 is provided under Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

This item includes a loan containing a material embedded derivative.

5. Held-to-maturity (HTM) financial investments

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 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 6.19 Deposits from banks, Note 6.20 Deposits from customers and Note 6.21 Debts evidenced by certificates).

Measurement is 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 can be found under Note 8.1 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 to hedge interest rate or foreign exchange-related transactions (see Note 6.22 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 5.5 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 provided under Note 8.1 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.) It 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 separate 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 categories described above. A hedging relationship exists where the underlying and hedging transaction, and the hedged risk can be specified. The hedging relationship is deemed to exist 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 on an ongoing basis. 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 the underlying are reported in the statement of comprehensive income, under net gains or losses on hedges (Note 5.11).

The HYPO NOE Group only 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.

Analyses of hedges broken down by the underlying transactions hedged are shown in Note 6.7 Positive fair value of hedges (hedge accounting) and Note 6.23 Negative fair value of hedges (hedge accounting).

3.8 LEASE ACCOUNTING

Additional information on the leasing business can be found under Note 8.3 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 administrative expenses (see Note 5.6 Administrative expenses).

3.9 INVESTMENT PROPERTY

Land and buildings held to earn rental income or for capital appreciation are classified as investment property. In cases of mixed occupancy, 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 (see Note 6.11 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:

- Buildings and building improvements 25-50 years

Rental income, depreciation, gains and losses on disposal, and any impairment are recognised in profit or loss (Note 5.1 Interest and similar income and Note 5.13 Net gains or losses on other financial investments).

Fair value for the reporting period was determined on the basis of independent valuations, using the income approach based on the applicable codes for building components (See Note 8.1.1 Fair value).

3.10 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.

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, and are measured at cost less depreciation.

A breakdown of intangible assets, and property, plant and equipment can be found in Notes 6.13 and 6.14 respectively.

Depreciation and amortisation are on a straight-line basis over the normal useful lives of the assets. The following useful lives are applied:

- Buildings and building improvements 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, buildings and building alterations 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 the summary in Note 5.6 Administrative expenses and the detailed disclosures in Note 5.6.3 Depreciation, amortisation and impairment). Gains and losses on disposal of property, plant and equipment are recognised under net other operating income (Note 5.7).

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 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

3.11 OTHER ASSETS

Other assets (see Note 6.17 for details) 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 on the basis of independent valuations. Costs are estimated on the basis of the implementation cost of a given project.

Other non-bank receivables are measured at amortised cost.

Earnings arising as a result of measurement are reported under Note 5.7 Net other operating income.

3.12 RISK PROVISIONS

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

The individual impairment allowances are determined on the basis of an assessment of the borrower's financial situation, taking into account the Workout Management Department's current assessment of the collateral, 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. mortgages 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 calculated on the basis of the present value of the total of estimated future cash flows – including expected interest payments – as of the dates they fall due.

Collective impairment allowances are recognised for reductions in the value of the Group's 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 AG or HYPO NOE Landesbank AG. 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); (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 between 2A and 4E, using the HYPO NOE Group master scale described in the risk report. For 2016, 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:

Collective impairment allowance = expected loss * LIP factor

Total risk provisions in respect of loans and advances carried as assets are 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 6.5 Risk provisions and credit provisions). The risk provisions for off-balance-sheet transactions are included under provisions (see Note 6.24). 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 (for a detailed analysis, see Note 5.3).

Note 6.5 Risk provisions and credit provisions provides quantified and narrative disclosures on 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 5.3, and further information is provided in Note 8.6 Risk management.

3.13 PROVISIONS

Information on provisions can be found in Note 6.24 to the statement of financial position.

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 the sense that the necessary funds are not set aside externally but retained internally. 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 on the basis of 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, and in the statement of comprehensive income, under other comprehensive income. Actuarial gains and losses on the jubilee benefit provision are shown under administrative expenses in the statement of comprehensive income (Note 5.6).

Measurement of the long-term employee benefit provisions was 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 1.1% p.a. (2015: 2.1% 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 2.0% p.a. (2015: 2.5% p.a.) and future pension increases of 2.0% p.a. (2015: 2.0% p.a.) are assumed. As in 2015, 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, 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 6.24 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 5.7). Movements in provisions for credit risks are reported in the statement of comprehensive income under credit provisions (Note 5.3).

3.14 OTHER LIABILITIES

Other liabilities (see Note 6.26) 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 Company's long-term profitability and the growth in shareholder value. The long-term incentive plan (LTIP) is an important means of aligning the interests of key management 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 that mirrors 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 the end of the five-year minimum holding period. This is reported under Note 5.6.1 Staff costs.

3.15 "GENUINE" SALE AND REPURCHASE AGREEMENTS

"Genuine" sale and 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 2016 the HYPO NOE Group entered into repurchase agreements as a transferee. The amounts concerned are detailed in Note 6.3.2 "Genuine" sale and repurchase agreements (as the transferee). The Group did not enter into any repurchase agreements as a transferor during the reporting period. A detailed discussion of such transactions is found in Note 6.19.2 "Genuine" sale and repurchase agreements (as the transferor).

3.16 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 exchange rate ruling on the transaction date.

As all of the consolidated subsidiaries draw up their financial statements in euro (the functional currency), it was not necessary to translate them into the reporting currency.

3.17 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 6.16 Tax assets and 6.25 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 using 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 are available for use without time limit. 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.

Deferred tax assets and liabilities are recognised and reversed either in profit or loss, under income tax expense, or in equity (Note 5.14 Income tax expense) if the underlying item is recognised outside profit or loss (e.g. the revaluation reserve for AFS financial instruments).

4. 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. Cash flows from investments, business transactions, dividends and subordinated debt are presented using the direct method.

The cash flows from **operating activities** mainly 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. When reconciling items of profit or loss for the year before non-controlling interests, non-cash items are removed. The principal adjustments are for depreciation and amortisation, impairment and write-ups and allocations to and reversals of provisions and risk provisions. Gains on disposal of financial assets and property, plant and equipment, which form part of cash flows from investing activities, and other sundry items are also adjusted.

Contrary to 2015, the cash flow for amortisation, depreciation, impairment and write-ups was negative in 2016, since the impairment of HETA bonds is recognised in the statement of cash flows. Other adjustments primarily includes non-cash items such as measurement gains and losses on investments accounted for using the equity method, on assets and liabilities held for trading, and on hedges, as well as deferred taxes. Taxes and interest paid and dividends received are reported as disclosures supplementary to cash flows from operating activities.

The cash flows from **investing activities** largely concern cash inflows and outflows from investments in and disposals of property, plant and equipment, and investment property. There were no financial assets held to maturity in 2016 or in the preceding year. As in the previous period, there were no significant proceeds from the acquisition of subsidiaries in 2016. The 2016 figures include a cash flow relating to the disposal of subsidiaries. This is attributable to the NOE Immobilien Development transaction. The cash flows from investing activities also include a minor cash outflow relating to AFS investments.

Dividends paid to owners of the parent including minority interests and interest payments on subordinated debt 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. The increase in this item was due to the change in the value of sterling.

Cash and cash equivalents consist of cash on hand and balances at central banks repayable on demand. This item corresponds to cash and balances at central banks in the statement of financial position.

In 2016 cash and cash equivalents rose by EUR 96m to EUR 165m. The main drivers for this positive cash flow were a substantial fall in loans and advances to customers (including HETA receivables) and a significant rise in deposits from customers. This also reflects the strategic broadening of the refinancing base and the successful expansion of fixed-income business, in particular with corporate customers.

5. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

5.1 INTEREST AND SIMILAR INCOME

Interest capitalised by the Group in 2016 amounted to EUR 3,576thsd (2015: EUR 2,811thsd). The average capitalisation rate was 1.06% (2015: 0.98%).

Interest income declined by EUR 18.1m in 2016 to EUR 565.6m. This development was primarily attributable to the progressive lowering of interest rates, which also resulted in lower interest rates for variable-rate loans. Under its established hedging strategy, the HYPO NOE Group avoids fixed interest rate positions and only authorises them as part of targeted control measures.

5.1.a Interest and similar income

EUR '000	2016	2015
Interest income from:		
Cash and balances at central banks	2	6
Loans and advances to banks	2,343	2,508
Loans and advances to customers	193,896	203,013
Bonds	52,109	56,253
Hedges (hedge accounting)	177,712	187,716
Other interest income (incl. negative interest)	112,428	108,836
of which income from investment property	*1,036*	*967*
Rental income	*3,191*	*3,000*
Depreciation	*-2,155*	*-2,033*
Current income from:		
Leases	24,985	24,324
Shares and other variable-income securities	387	84
Other investments	1,783	1,017
Total	**565,645**	**583,757**

5.1.b Interest and similar income by IAS 39 measurement category

EUR '000	2016	2015
Interest and similar income from:		
Loans and receivables (LAR)	199,000	208,288
Available-for-sale (AFS) assets	53,996	56,962
Assets measured using the fair value option (FVO)	299	205
Assets held for trading (HFT)	105,873	99,973
Impaired loans and advances (unwinding)	3,092	3,275
Hedges (hedge accounting)	177,712	187,716
Interest income attributable to other periods	191	221
Net gains or losses on investment property:	1,036	967
Rental income	*3,191*	*3,000*
Depreciation	*-2,155*	*-2,033*
Current lease income	24,975	24,324
Current origination and commitment fees	4,474	4,121
Income from loans and advances with negative interest rates	-5,003	-2,295
Total	**565,645**	**583,757**

5.2 INTEREST AND SIMILAR EXPENSE

Owing to falling market rates, interest expense declined by EUR 11.7m in 2016 to EUR 441.2m. Increased expenses related to deposits from customers, as shown in Note 5.2.a Interest and similar expense, also reflects the strategic broadening of the refinancing base in 2016 and the successful expansion of fixed-income business, in particular with corporate customers.

5.2.a Interest and similar expense

EUR '000	2016	2015
Interest expense on:		
Liabilities to central banks	-325	-176
Deposits from banks	-9,774	-12,229
Deposits from customers	-29,163	-24,409
Debts evidenced by certificates	-178,765	-197,876
Subordinated capital	-1,682	-2,228
Hedges (hedge accounting)	-119,841	-119,682
Other interest expense (incl. negative interest)	-101,656	-96,317
Total	**-441,206**	**-452,917**

5.2.b Interest and similar expense by IAS 39 measurement category

EUR '000	2016	2015
Interest expense on:		
Financial liabilities measured at amortised cost (LAC)	-220,886	-237,349
Financial liabilities held for trading (HFT)	-101,208	-95,986
Hedges (hedge accounting)	-119,841	-119,682
Deposits with negative interest rates	729	100
Total	**-441,206**	**-452,917**

5.3 CREDIT PROVISIONS

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

EUR '000	2016	2015
Allocations	**-22,991**	**-21,875**
Individual impairment allowances	-21,107	-20,671
Collective impairment allowances	-1,673	-1,103
Other credit provisions	-211	-101
Reversals	**10,189**	**16,152**
Individual impairment allowances	7,709	14,791
Collective impairment allowances	2,248	1,189
Other credit provisions	232	172
Receipts from impaired assets	**5,943**	**7,156**
Direct write-offs	**-930**	**-262**
Total	**-7,789**	**1,171**

The year-on-year decline in credit provisions is mainly the result of a fall in reversals.

5.4 NET FEE AND COMMISSION INCOME

In 2016 net fee and commission income amounted to EUR 13.5m. Income was EUR 16.5m, compared with expenses of EUR 3.1m, meaning that net income fell by EUR 391.9thsd year on year. Income from lending was slightly lower, and there was a slight increase in expenses in the custody account business. Commissions on payment transactions rose at the same time.

EUR '000	2016	2015
Fee and commission income	**16,534**	**16,638**
Loans and advances	1,345	1,691
Securities and custody account business	4,484	4,536
Payment transactions	5,900	5,777
Foreign exchange, foreign notes and coins, and precious metals	251	272
Other services	3,916	3,617
Diversification	634	741
Other fee and commission income	4	4
Fee and commission expense	**-3,076**	**-2,788**
Loans and advances	-79	-39
Securities and custody account business	-1,433	-1,160
Payment transactions	-1,086	-1,127
Other services	-12	-15
Diversification	-466	-447
Total	**13,458**	**13,850**

5.5 NET TRADING INCOME

EUR '000	2016	2015
Interest rate transactions	-2,175	-2,511
Foreign exchange transactions	2,840	5,753
Total	**665**	**3,242**

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

5.6 ADMINISTRATIVE EXPENSES

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

EUR '000	2016	2015
Staff costs	-67,841	-67,153
Other administrative expenses	-54,821	-55,979
Depreciation, amortisation and impairment	-6,275	-5,979
Total	**-128,937**	**-129,111**

5.6.1 Staff costs

EUR '000	2016	2015
Wages and salaries	-52,170	-51,349
*of which phantom-share-based cash incentives**	*-26*	*-130*
Social security costs	-10,820	-11,402
Cost of voluntary employee benefits	-1,181	-1,335
Retirement benefit costs	-1,631	-1,597
Termination benefit costs	-2,039	-1,470
of which expenses for provident fund	*-603*	*-596*
Total	**-67,841**	**-67,153**

**For information on share-based remuneration see 3.14 Other liabilities*

The cost reduction and productivity measures introduced braked the annual automatic escalation of wage and salary expense (through collective agreements, increments and individual salary adjustments). The increase in termination benefits expenses includes voluntary payments due to the moderate payroll reduction measures taken, as well as allocations based on actuarial reports.

	2016	2015
Average number of employees (incl. staff on parental leave)	896	923

EUR '000	2016	2015
Salaries of Management Board members	**-1,573**	**-863**
Short-term employee benefits	*-1,187*	*-787*
Of which current remuneration	*-996*	*-733*
Post-employment benefits	*-382*	*-74*
Termination benefits	*-3*	*-2*
Supervisory Board members' remuneration (non-employees)	**-99**	**-78**
Supervisory Board members' salaries	**-468**	**-456**
Remuneration of key management personnel (other than the members of the Management Board and Supervisory Board of the parent):	**-4,408**	**-4,677**
Current remuneration	*-3,940*	*-3,861*
Short-term employee benefits	*-207*	*-243*
Post-employment benefits	*-254*	*-559*
Other long-term benefits	*-2*	*-12*
Provision for termination benefits	*-5*	*-2*

EUR '000	2016	2015
Termination benefit expenses incl. provident fund for:	**-2,039**	**-1,470**
Management Board	-306	-27
Key management personnel	-71	-351
Other employees	-1,662	-1,092
Pension expenses for:	**-1,632**	**-1,597**
Management Board	-82	-63
Key management personnel	-192	-219
Other employees (including former employees)	-1,358	-1,315

The "Supervisory Board members' remuneration" item forms part of other administrative expenses, but is shown in the supplementary information on staff costs in the interests of clarity. All of the information in the two tables above relates to the groups of individuals who held the relevant position at the end of the reporting period.

The pensions of former Management Board members and their surviving dependants amounted to EUR 388thsd (2015: EUR 383thsd). A total of EUR 551thsd was allocated to provisions (2015: EUR 1,614thsd).

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 Pensionskassen AG.

The contracts oblige the employer to contribute 2.7% of employees' eligible salaries (including administrative costs and plus insurance tax) to the fund. The percentages applicable to senior management personnel are 4.2%, 6% and 10%. In the case of employees who joined the pension scheme on or before 31 December 2012, the employer's contributions vest five years after payments begin; in that of employees joining after 1 January 2013, the employer's contributions vest three years after payments begin. Eligibility for employer's contributions is conditional on five years' service; eligible prior service is counted. For 2016 the contributions amounted to EUR 1,013thsd (2015: EUR 934thsd).

Key management in the HYPO NOE Group comprises "identified staff".

5.6.2 Other administrative expenses

EUR '000	2016	2015
Premises	-5,606	-5,517
Office and communication expenses	-1,274	-1,390
IT expenses	-8,775	-8,286
Legal and consultancy costs	-4,957	-6,149
Advertising and entertainment costs	-5,321	-6,002
Warranty costs	-378	-630
Other administrative expenses	-28,510	-28,005
Total	**-54,821**	**-55,979**

EUR '000	2016	2015
Legal and consultancy costs include the following fees of the auditors of the consolidated financial statements:		
Annual audit	-641	-618
Other auditing services	-84	-168
Tax advice	-189	-197
Other services	-166	-89

EUR '000	2016	2015
Other administrative expenses include:		
Financial stability contribution (bank tax)	-14,900	-14,704
Deposit insurance fund and resolution fund	-8,101	-6,553
Expenses for FMA and AFREP	-426	-315
Cost of compliance with company law	-803	-906
Training costs	-117	-1,213
Vehicle and fleet expenses	-1,092	-1,131
Insurance	-374	-400
Travel expenses	-365	-415
Cost of information procurement and payment transactions	-1,085	-739
Sundry other administrative expenses	-1,247	-1,629
Total	**-28,510**	**-28,005**

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

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

At year-end, the HYPO NOE Group resolved to make the one-off contribution spread across the four years up to 2020, in accordance with section 5 Stabilitätsabgabegesetz (Stability Contribution Act).

The decline in training costs is attributable to the decision to shift the focus of training activities to courses required by law and by the regulator, due to the stronger emphasis on cost-saving. The provisions for retraining schemes were reversed, as the demand for such courses decreased.

5.6.3 Depreciation, amortisation and impairment

EUR '000	2016	2015
Depreciation and amortisation	**-5,847**	**-5,979**
Intangible assets	-712	-674
Buildings used by Group companies	-1,840	-1,843
Equipment, fixtures and furnishings (incl. low value assets)	-3,295	-3,462
Impairment	**-428**	**-**
Intangible assets	-428	-
of which Goodwill	*-428*	-
Total	**-6,275**	**-5,979**

The impairment losses in 2016 relate to a goodwill item. This has now been written off in full (see Note 6.13 Intangible assets).

5.7 NET OTHER OPERATING INCOME

EUR '000	2016	2015
Other rental income	**340**	**281**
Gains/losses on:	**-252**	**147**
disposal of intangible assets, and property, plant and equipment	-252	147
Net gains or losses on recognition and reversal of provisions	**6,345**	**-8,846**
Sundry other operating income	**25,354**	**33,418**
Sundry other income	36,425	47,120
Sundry other expenses	-11,071	-13,702
Total	**31,787**	**25,000**

In 2015 a loss was recognised under net gains or losses on recognition and reversal of provisions to reflect the debt warranty. The figure for 2016 reflects the reversal of part of the related provision (see the information on credit risk in Note 8.6 Risk management). This item also includes the reversal of provisions for litigation costs (see Note 6.24.1 Movements in provisions).

Sundry other expenses/income include net gains on currency translation of EUR 1,638thsd (2015: net loss of EUR 1,019thsd) – see Note 5.12 Net gains and losses on financial assets and liabilities.

This item also includes gains of EUR 6,845thsd (2015: EUR 7,172thsd) in administrative and intermediation fees,

as well as net gains on debt repurchases of EUR 1,145thsd (2015: EUR 15,169thsd) and net gains of EUR 7,532thsd (2015: EUR 5,106thsd) from purchase price adjustments resulting from early repayments in connection with a loan purchase.

5.8 NET GAINS OR LOSSES ON DISPOSAL OF CONSOLIDATED SUBSIDIARIES

This item relates to the consolidation of the real estate portfolio, and the improved implementation of development projects currently at the planning stage by bringing in external investors in NOE Immobilien Development AG. The agreement in question was signed on 27 December 2016 and registered on 30 December 2016. NID, development projects, as well as project companies and holding companies that form part of this structure, are recognised in the HYPO NOE Group annual report as deconsolidated entities (see the information on disposals in the section on changes in 2016 under Note 3.1 Basis of consolidation).

The net gains or losses are attributable to the Other segment (see Note 7.1 Business segment information).

Information on the residual interest of 48%, which is accounted for using the equity method, is provided in Note 3.2.3 Associates and joint ventures.

EUR '000	2016	2015
Cash and balances at central banks	16,788	-
Investment property	27,032	-
Tax assets	487	-
Other assets	33,272	-
Total assets	**77,578**	**-**
Deposits from banks	20,362	-
Deposits from customers	310	-
Tax liabilities	188	-
Other liabilities	28,634	-
Total liabilities	**49,495**	**-**
Proceeds of disposal	21,716	-
+ Fair value of remaining interest held by the Group	14,752	-
- Assets disposed of	-77,578	-
+ Liabilities disposed of	49,495	-
Net gains or losses on disposal of consolidated subsidiaries	8,384	-
Net gains or losses recognised in profit or loss	**8,384**	**-**

EUR '000	2016	2015
Consideration received in cash and cash equivalents	15,981	-
Less cash and cash equivalents sold	-16,788	-
Proceeds from the disposal of subsidiaries	**-807**	**-**
Amount outstanding from the corporate transaction	10,598	-

5.9 NET GAINS OR LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR '000		2016	2015
Income from financial assets		**57,387**	**2,315**
Gains on disposal	(5.12)	32,698	2,315
Write-ups		24,689	-
Expenses arising from financial assets		**-398**	**-30,140**
Losses on disposal	(5.12)	-42	-2,508
Depreciation, amortisation and impairment		-356	-27,632
Total		**56,989**	**-27,825**

In 2015 impairments mainly related to Heta Asset Resolution AG bonds in light of the debt repayment moratorium imposed by the FMA.

The HYPO NOE Group accepted the second tender offer, opting for the swap offer and exchanging its Heta Asset Resolution AG (Heta) debt instruments with a value of EUR 225m (nostro position) for zero-coupon bonds issued by the Carinthian Compensation Payment Fund.

All Carinthian Compensation Payment Fund zero-coupon bonds were divested in December 2016.

As at end-2016, the HYPO NOE Group no longer held any Heta debt instruments. The net gains or losses recognised predominantly relate to this transaction.

5.10 NET GAINS OR LOSSES ON FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR '000	2016	2015
Net gains or losses on financial assets	**249**	**-126**
Loans	311	-
Bonds	-62	-126
Total	**249**	**-126**

5.11 NET GAINS OR LOSSES ON HEDGES

This item comprises gains or losses on the underlying transactions attributable to hedged risk and to remeasurement of hedging instruments to fair value (hedge accounting).

EUR '000	2016	2015
Hedge accounting	**-1,224**	**-1,887**
Net gains or losses on underlying transactions	67,885	4,751
Net gains or losses on hedging instruments	-69,109	-6,638
Total	**-1,224**	**-1,887**

The net loss on hedges is principally attributable to the different discount rates applied to hedges and the related underlying transactions. The different discounting of hedges caused by changed market standards (OIS discounting) produces temporary differences in the results. Derivatives measured at fair value (hedge transactions) predominantly form part of closed positions.

5.12 NET GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

EUR '000		2016	2015
Net realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss		**32,941**	**861**
Available-for-sale financial assets	(5.9)	32,656	-193
Loans and receivables (incl. finance leases)	(5.13)	166	-6
Other	(5.13)	119	1,060
Net gains or losses on financial assets and liabilities held for trading	(5.5)	**665**	**3,242**
Interest rate instruments and related derivatives		-2,175	-2,511
Foreign exchange trading		2,840	5,753
Gains or losses on financial assets and liabilities measured at fair value through profit or loss	(5.10)	**249**	**-126**
Gains or losses on hedge accounting	(5.11)	**-1,224**	**-1,887**
Net gains on currency translation	(5.7)	**1,638**	**-1,019**
Total		**34,269**	**1,071**

5.13 NET GAINS OR LOSSES ON OTHER FINANCIAL INVESTMENTS

EUR '000		2016	2015
Gains or losses on disposal of receivables and promissory notes	(5.12)	**166**	**-6**
Investment property		**56**	**1,255**
Proceeds from disposals	(5.12)	1,207	1,700
Carrying amounts of disposals	(5.12)	-1,088	-640
Let investment property		-48	217
Vacant investment property		-15	-22
Total		**222**	**1,249**

5.14 INCOME TAX EXPENSE

This item includes all taxes payable on profits for the reporting period.

EUR '000	2016	2015
Current income tax	-20,511	-2,585
Deferred income tax	-2,921	-2,670
Total	**-23,432**	**-5,255**

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	2016	2015
Profit/loss for the year before tax	93,430	11,659
x income tax rate	25%	25%
= anticipated income tax expense	**-23,358**	**-2,915**
Reductions in tax liability	**3,070**	**759**
Tax-free income from investments	624	327
Other tax-free income	2,446	432
Increases in tax liability	**-3,235**	**-2,727**
Non-deductible expenses	-1,729	-1,123
Investments accounted for using the equity method	-1,506	-1,604
Tax effects of other differences	**91**	**-372**
Adjustments to and non-recognition of deferred tax	-5	-158
Previous years	623	-212
Prepayments	-44	-10
Other adjustments	-483	8
Total	**-23,432**	**-5,255**

Net deferred tax liabilities of EUR 6thsd (2015: EUR -1,449thsd) were recognised directly in equity. The basis for non-recognition of deferred tax in profit or loss for associates and joint ventures is EUR 6,023thsd (2015: EUR 6,415thsd).

			Change 2016				
EUR '000	Net deferred taxes 1 Jan. 2016	Changes in scope of consolidation	Recognised in profit or loss	Not recognised in profit or loss	Net deferred taxes 1 Jan. 2016	of which assets	of which liabilities
Loans and advances (to banks and customers) incl. risk provisions	-172,543	-	-11,787	-	-184,331	1,109	-185,440
Positive fair value of hedges (hedge accounting)	-127,365	-	6,561	-	-120,804	-	-120,804
Assets held for trading	-134,176	-	4,381	-	-129,795	-	-129,795
Financial instruments (FVO, AFS)	-47,832	-	766	-	-47,418	20	-47,438
Other assets (statement of financial position)	-1,373	-	606	-	-768	3,258	-4,025
Liabilities (debts evidenced by certificates and deposits from banks and customers)	117,915	-	-5,379	-	112,536	112,536	-
Liabilities held for trading	129,242	-	-3,504	-	125,739	125,739	-
Negative fair value of hedges (hedge accounting)	185,241	-	13,184	-	198,424	198,424	-
Other liabilities (statement of financial position)	4,524	-	-3,163	-	1,725	7,535	-5,811
Actuarial gains and losses in accordance with IAS 19	-	-	-	364	-	-	-
Available-for-sale (AFS) financial instruments	-	-	-	-352	-	-	-
Tax loss carryforwards available for use without time limit	14,015	245	-4,835	-	9,180	9,180	-
Currency translation reserve	-	-	6	-6	-	-	-
Total	**-32,353**	**245**	**-3,166**	**6**	**-35,512**	**457,801**	**-493,313**

The deconsolidation of project companies as a result of the NID transaction gave rise to a deferred tax effect in 2016, which is presented under "Changes in scope of consolidation".

The taxable temporary differences related to interests in affiliated companies, joint ventures and associates for which no deferred tax liabilities were recognised under paragraph 39 IAS 12 totalled EUR 5,845thsd.

Note 6.16 Tax assets and Note 6.25 Tax liabilities provide a detailed analysis of the deferred tax assets and liabilities.

EUR '000	Net deferred taxes 1 Jan. 2016	Changes in scope of consoli-dation	Change 2015 Recog-nised in profit or loss	Change 2015 Not recognised in profit or loss	Net deferred taxes 31 Dec. 2015	of which assets	of which liabilities
Loans and advances (to banks and customers) incl. risk provisions	-198,400	-	25,856	-	-172,543	372	-172,915
Positive fair value of hedges (hedge accounting)	-165,957	-	38,592	-	-127,365	-	-127,365
Assets held for trading	-152,161	-	17,984	-	-134,176	-	-134,176
Financial instruments (FVO, AFS, HTM)	-54,763	-	8,177	-	-47,832	28	-47,860
Other assets (statement of financial position)	-5,210	-	3,836	-	-1,373	3,321	-4,694
Liabilities (debts evidenced by certificates and deposits from banks and customers)	157,284	-	-39,369	-	117,915	117,915	-
Liabilities held for trading	147,785	-	-18,543	-	129,242	129,242	-
Negative fair value of hedges (hedge accounting)	219,467	-	-34,226	-	185,241	185,241	-
Other liabilities (statement of financial position)	304	-	4,425	-	4,524	7,892	-3,368
Actuarial gains and losses in accordance with IAS 19	-	-	-	-206	-	-	-
Available-for-sale (AFS) financial instruments	-	-	-	-1,247	-	-	-
Tax loss carryforwards available for use without time limit	23,415	-	-9,399	-	14,015	14,015	-
Currency translation reserve	-	-	-3	3	-	-	-
Total	**-28,234**	**-**	**-2,670**	**-1,449**	**-32,353**	**458,025**	**-490,378**

5.15 NON-CONTROLLING INTERESTS

EUR '000	2016	2015
FORIS Grundstückvermietungs Gesellschaft m.b.H.	-9	-13
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-29	58
LITUS Grundstückvermietungs Gesellschaft m.b.H.	-52	-29
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-40	-108
Adoria Grundstückvermietungs Gesellschaft m.b.H.	-20	-
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-44	-12
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	-17	-21
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	-10	-122
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-13	-10
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	-1	-1
Haymogasse 102 Immobilienentwicklung GmbH	-	-1
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	57	8
Total	**-178**	**-252**

6. NOTES TO THE STATEMENT OF FINANCIAL POSITION

6.1 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 shown at nominal value. This item rose by EUR 96m in 2016. The increase in balances at central banks reflects pre-funding, especially for own issues maturing in 2017.

Interest income is reported under "Interest and similar income" (Note 5.1).

EUR '000	31 Dec. 2016	31 Dec. 2015
Cash on hand	12,924	13,508
Balances at central banks	151,663	55,478
Total	**164,587**	**68,986**

6.2 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 8.3 Leasing disclosures), overnight money and time deposits, and unlisted securities. They include accrued interest but are gross of impairment losses (see Note 6.3 Loans and advances to banks and Note 6.4 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 5.1).

The current risk situation is discussed in detail in Note 8.6 Risk management.

6.3 LOANS AND ADVANCES TO BANKS

6.3.1 Geographical analysis

EUR '000	31 Dec. 2016	31 Dec. 2015
Domestic banks	112,712	115,777
Foreign banks		
CEE	421	1,458
Rest of the world	885,214	804,856
Total	**998,347**	**922,091**

Loans and advances to banks include "genuine" repurchase agreements (entered into by the Group as the transferor).

6.3.2 "Genuine" repurchase agreements (as the transferee)

Securities were transferred by way of reverse repo transactions, subject to a contractual obligation to return them to the HYPO NOE Group. The transferor retained all the risks and rewards of ownership.

These transactions were largely tri-party repos.

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 passes from the transferor to the transferee. However, economic ownership (cash flows, risks and opportunities) remains with the transferor.

As the securities continue to be accounted for by the transferor, the transferee is not obliged to report them as assets.

EUR '000	31 Dec. 2016	31 Dec. 2015
Loans and advances to banks under repo agreements	49,961	-

6.4 LOANS AND ADVANCES TO CUSTOMERS

6.4.1 Customer group analysis

The presentation of this item has been adjusted to reflect the inclusion of future finance lease agreements in other assets (Note 6.17) from 2016 onwards.

The public sector customer group includes financial solutions designed for public sector clients in Austria and abroad.

The business customer group normally relates to energy and infrastructure businesses, regulated companies, and leading manufacturers. Lending to small and medium-sized enterprises (SMEs), and to capital-intensive medical practices and other professionals' businesses largely relates to health, housing and education.

The housing developer customer group comprises non-profit housing associations and other developers, as well as commercial developers and purchased subsidised home loans.

The retail customer group also includes purchased subsidised home loans.

EUR '000	31 Dec. 2016	31 Dec. 2015
Public sector customers	5,150,341	5,606,235
Business customers	1,778,604	2,051,636
Housing developers	1,540,216	1,543,237
Retail customers	2,325,131	2,290,827
Professionals	60,640	65,352
Total	**10,854,932**	**11,557,287**

6.4.2 Geographical analysis

EUR '000	31 Dec. 2016	31 Dec. 2015
Domestic customers	9,661,128	10,153,127
Foreign customers		
CEE	469,121	527,351
Rest of the world	724,683	876,809
Total	**10,854,932**	**11,557,287**

6.5 RISK PROVISIONS AND CREDIT PROVISIONS

Loans and advances to customers includes EUR 68,226thsd in interest-free loans and advances, of which the unsecured portion of EUR 28,199thsd was impaired (2015: 136,250thsd, of which EUR 35,769thsd was impaired).

Additional narrative information is given in Note 3.12 Risk provisions and Note 8.6 Risk management.

6.5.1 Analysis of risk provisions and credit provisions by customer group

"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 become self-employed, or vice versa (e.g. when self-employment ceases due to retirement).

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

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

6.5.2 Geographical analysis of risk provisions

EUR '000	31 Dec. 2016	31 Dec. 2015
Domestic	-58,715	-68,322
Foreign		
CEE	-11,096	-12,327
Rest of the world	-27,651	-19,774
Total risk provisions	**-97,462**	**-100,423**

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

The disclosures below relate to loans and advances to customers. Any other impairments are disclosed in the notes to the items concerned.

The tables show the value of the collateral as calculated for regulatory purposes. The receivables of the leasing subgroup, amounting to around EUR 2,131,982thsd (2015: EUR 2,206,586), are shown gross of collateral.

The financial assets were tested for impairment on the basis of the most recent information available, and those that were neither impaired nor past due were treated as recoverable.

31 Dec. 2016, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Gross carrying amount (not individually impaired)	12,666,909	38,655	2,557	12,708,121
of which LAR	10,791,678	38,655	2,557	10,832,890
AFS assets	1,875,231	-	-	1,875,231
Gross carrying amount (individually impaired)	175,790	2,319	67,070	245,179
of which LAR	134,850	2,319	67,070	204,239
AFS assets	40,940	-	-	40,940
Gross carrying amount	**12,842,699**	**40,974**	**69,627**	**12,953,300**
of which LAR	10,926,528	40,974	69,627	11,037,129
AFS assets	1,916,171	-	-	1,916,171
Collateral in the form of LAR				**4,703,031**
of which secured by mortgages				1,766,036
loans secured in other ways				48,683
financial guarantees received				2,888,312
Collateral in the form of AFS assets				**465,591**
Collective impairment allowances (LAR)	-4,400	-77	-58	-4,535
Individual impairment allowances (LAR)	-44,748	-683	-47,497	-92,928
Net carrying amount	**12,793,551**	**40,214**	**22,072**	**12,855,837**

31 Dec. 2015, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Gross carrying amount (not individually impaired)	13,262,518	118,418	2,849	13,383,785
of which LAR	11,352,997	118,418	2,849	11,474,265
AFS assets	1,909,520	-	-	1,909,520
Gross carrying amount (individually impaired)	170,421	7,672	224,267	402,360
of which LAR	128,429	7,672	79,164	215,265
AFS assets	41,991	-	145,102	187,094
Gross carrying amount	**13,432,939**	**126,090**	**227,116**	**13,786,145**
of which LAR	11,481,427	126,090	82,013	11,689,530
AFS assets	1,951,512	-	145,102	2,096,614
Collateral in the form of LAR				**4,957,039**
of which secured by mortgages				1,834,402
loans secured in other ways				48,335
financial guarantees received				3,074,302
Collateral in the form of AFS assets				**463,744,753**
Collective impairment allowances (LAR)	-4,890	-215	-5	-5,110
Individual impairment allowances (LAR)	-42,269	-2,230	-50,814	-95,313
Net carrying amount	**13,385,780**	**123,645**	**176,297**	**13,685,722**

In 2016 collateral seized with the intention of disposal totalled EUR 56thsd (2015: EUR 56thsd). These assets are referred to in Note 6.17 Other assets.

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

31 Dec. 2016, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Risk provisions for customers: individual impairment allowances	**-44,748**	**-682**	**-47,497**	**-92,927**
General governments	-5,351	-	-	-5,351
Other financial corporations	-	-	-	-
Non-financial corporations	-35,201	-169	-25,075	-60,445
Households	-4,196	-513	-22,422	-27,131
Risk provisions for customers and banks: collective impairment allowances	**-4,400**	**-77**	**-58**	**-4,535**
Total risk provisions	**-49,148**	**-759**	**-47,555**	**-97,462**

31 Dec. 2015, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Risk provisions for customers: individual impairment allowances	**-42,269**	**-2,229**	**-50,815**	**-95,313**
General governments	-5,352	-	-	-5,352
Other financial corporations	-110	-	-230	-340
Non-financial corporations	-32,070	-1,955	-29,238	-63,263
Households	-4,737	-274	-21,347	-26,358
Risk provisions for customers and banks: collective impairment allowances	**-4,890**	**-215**	**-5**	**-5,110**
Total risk provisions	**-47,159**	**-2,444**	**-50,820**	**-100,423**

6.5.4 Forborne exposures

The tables below show the changes in forborne exposures, as well as analyses by geographical area, business segment, rating class and maturity. The disclosures comprise both forborne instalments and arrears. In 2016 forbearance measures in respect of a total of EUR 8,826thsd in individual impairment allowances were recognised in profit or loss. See Note 8.6 Risk management for an additional narrative discussion.

Forborne exposures at 1 Jan. 2016, EUR '000	Increases (+)	Decreases (-)	Forborne exposures at 31 Dec. 2016	Interest income from existing receivables recognised in profit or loss	Individual impairment allowances	Collective impairment allowances
100,690	38,559	-12,313	126,935	1,698	-30,617	-179

Forborne exposures at 1 Jan. 2015, EUR '000	Additions (+)	Exits (-)	Forborne exposures at 31 Dec. 2015	Interest income from existing receivables recognised in profit or loss	Individual impairment allowances	Collective impairment allowances
100,724	16,821	-16,855	100,690	2,227	-27,151	-116

Geographical analysis

EUR '000	31 Dec. 2016	31 Dec. 2015
Domestic customers	49,472	28,097
Foreign customers		
CEE	52,077	46,392
Rest of the world	25,386	26,200
Total	**126,935**	**100,690**

Segment analysis

EUR '000	31 Dec. 2016	31 Dec. 2015
Gruppe Bank	104,828	76,205
Landesbank	22,107	24,485
Total	**126,935**	**100,690**

Rating analysis

31 Dec. 2016, EUR '000	Not past due and not individually impaired	Not past due but individually impaired	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Rating class 2	-	-	-	-	**-**	217
Rating class 3	-21,465	-	-	-	**-21,466**	2,473
Rating class 4	-13,516	-	-244	-	**-13,760**	6,004
Rating class 5	-1,217	-77,960	-636	-11,898	**-91,709**	28,749
Total	**-36,198**	**-77,960**	**-880**	**-11,898**	**-126,935**	**37,442**

31 Dec. 2015, EUR '000	Not past due and not individually impaired	Not past due but individually impaired	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Rating class 2	-	-	-	-	**-**	-
Rating class 3	-1,638	-	-	-	**-1,638**	1,409
Rating class 4	-8,776	-	-183	-	**-8,959**	6,401
Rating class 5	-6,576	-63,823	-2,111	-17,584	**-90,093**	28,136
Total	**-16,990**	**-63,823**	**-2,293**	**-17,584**	**-100,690**	**35,945**

31 Dec. 2016, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Gross carrying amount (not individually impaired)	36,198	420	-	**36,618**	10,006
Gross carrying amount (individually impaired)	77,960	460	11,896	**90,316**	27,436
Collective impairment allowances	-178	-2	-3	**-183**	-
Individual impairment allowances	-21,719	-106	-8,792	**-30,617**	-
Net carrying amount	**92,262**	**772**	**3,101**	**96,135**	**37,442**

31 Dec. 2015, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Gross carrying amount (not individually impaired)	16,990	182	-	**17,172**	8,182
Gross carrying amount (individually impaired)	63,823	2,111	17,584	**83,518**	27,763
Collective impairment allowances	-116	-	-	**-116**	-
Individual impairment allowances	-19,178	-29	-7,944	**-27,151**	-
Net carrying amount	**61,519**	**2,264**	**9,640**	**73,423**	**35,945**

6.6 ASSETS HELD FOR TRADING

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

Realised gains and losses, and measurement gains and losses are reported under the "Net trading income" item (Note 5.5).

EUR '000	31 Dec. 2016	31 Dec. 2015
Positive fair value of financial instruments (banking book)		
Interest rate derivatives	545,164	553,839
Foreign exchange derivatives	7,026	20,880
Other assets held for trading	3,103	12,092
Total	**555,293**	**586,811**

6.7 POSITIVE FAIR VALUE OF HEDGES (HEDGE ACCOUNTING)

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

Measurement gains and losses on fair value hedges are recognised in profit or loss, under the "Net gains or losses on hedges" item (Note 5.11). Current income from hedges is reported under Note 5.1 Interest and similar income.

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

EUR '000	31 Dec. 2016	31 Dec. 2015
Assets	**1,660**	**2,449**
Loans and advances to banks	452	664
Loans and advances to customers	537	926
Financial assets	671	859
Liabilities	**481,555**	**507,009**
Deposits from banks	1,871	1,139
Deposits from customers	23,363	36,191
Debts evidenced by certificates	456,321	469,679
Total	**483,215**	**509,458**

6.8 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 unconsolidated subsidiaries, and equity investments not held for sale. For additional information see part 3 of Note 3.4 Financial assets, Available-for-sale financial assets (AFS).

Gains and losses on disposal, and measurement gains and losses are reported under the "Net gains and losses on available-for-sale assets" item (Note 5.9).

EUR '000	31 Dec. 2016	31 Dec. 2015
Other equity instruments	48,063	4,020
Bonds	1,916,170	2,096,613
Interests in unconsolidated subsidiaries (over 50%)	106	931
Interests in associates (20-50%)	492	477
Other investments	2,317	2,297
Total	**1,967,148**	**2,104,338**

6.9 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

Until 31 December 2015 this item was confined to financial assets designated as at fair value through profit or loss on initial recognition. However, a loan for which the fair value option was taken was reported in the first half of 2016. See also part 4 of narrative Note 3.4 Financial assets, on financial assets designated as at fair value through profit or loss (FVPL).

EUR '000	31 Dec. 2016	31 Dec. 2015
Bonds	-	4,118
Loans	20,340	-
Total	**20,340**	**4,118**

6.10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Additional information on investments accounted for using the equity method is given in Note 3.2.3 Associates and joint ventures.

EUR '000	31 Dec. 2016	31 Dec. 2015
Banks	2,632	2,012
Non-banks	27,290	18,925
Total	**29,922**	**20,937**

Losses totalling EUR 313thsd (31 Dec. 2015: EUR 132thsd) were not recognised through profit or loss. In 2016 these accumulated losses grew by EUR 181thsd, whereas they fell by EUR 42thsd in 2015. None of the companies accounted for using the equity method as at 31 December 2016 – or at the end of the previous year – were listed.

The increase in their carrying amount chiefly reflects the consolidation of NID, which more than offset the impairment of EWU.

6.11 INVESTMENT PROPERTY

Land and buildings held to earn rental income, for a currently undetermined future use or for anticipated capital appreciation are reported under this item (see Note 3.9 Investment property).

Rental income in the period under review was EUR 3,191thsd (2015: EUR 3,000thsd).

EUR '000	31 Dec. 2016	31 Dec. 2015
Investment property	54,117	68,704

The fair value of investment properties as at 31 December 2016 was EUR 55,872thsd (31 Dec. 2015: EUR 76,524thsd). Additional information on this item is given under 8.1 Fair value disclosures (IFRS 7 and IFRS 13).

The changes in investment property are shown in the statement of movements in financial assets below.

6.12 MOVEMENTS IN FINANCIAL ASSETS

The available-for-sale financial assets carried in the statement of movements in financial assets comprise holdings in unconsolidated subsidiaries (interests of over 50%), holdings in associates (20–50%) and other investments (less than 20%). The additions and disposals reflect the various carrying amounts, and the related cash flows are shown in the consolidated statement of cash flows, under cash flows from investing activities.

The change in the scope of consolidation relates to NID and its development projects, as well as previously consolidated project companies and holding companies that are now reported on in the HYPO NOE Group annual report as unconsolidated entities (see Note 3.2 Investments).

The other disposals largely relate to the conversion of an operating lease into a finance lease, which is reported under loans and advances to customers.

As in the previous year, the net measurement 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).

		Cost						
EUR '000	Note	1 Jan. 2016	Changes in scope of consolidation	Additions	Disposals	Transfers	Other changes	31 Dec. 2016
Available-for-sale financial assets	(6.8)	7,161	14,191	93	-	-14,997	-20	6,428
Investments accounted for using the equity method	(6.10)	14,380	-	-	-	14,997	-	29,377
Investment property	(6.11)	80,574	-25,191	15,927	-10,499	-	-	60,811
Total financial investments		**102,115**	**-11,000**	**16,124**	**-10,499**	**-**	**-20**	**96,720**

		Cost						
EUR '000	Note	1 Jan. 2015	Changes in scope of consolidation	Additions	Disposals	Transfers	Other changes	31 Dec. 2015
Available-for-sale financial assets	(6.8)	7,364	-	805	-1,008	-	-	7,161
Investments accounted for using the equity method	(6.10)	14,473	-	10	-103	-	-	14,380
Investment property	(6.11)	79,057	-	3,803	-2,189	-97	-	80,574
Total financial investments		**100,894**	**-**	**4,618**	**-3,300**	**-97**	**-**	**102,115**

	Depreciation and adjustments (+/-) to investments accounted for using the equity method							Carrying amount	
	1 Jan. 2016	Changes in scope of consolidation	Depreciation and adjustments (+/-) to investments accounted for using the equity method	Impairments	Write-ups	Disposals	31 Dec. 2016	1 Jan. 2016	31 Dec. 2016
	-3,456	-	-	-57	-	-	-3,513	3,705	2,915
	6,557	-254	7,201	-12,959	-	-	545	20,937	29,922
	-11,870	5,138	-2,155	-	-	2,193	-6,694	68,704	54,117
	-8,769	**4,884**	**5,036**	**-13,016**	**-**	**2,193**	**-9,672**	**93,346**	**87,048**

	Depreciation and adjustments (+/-) to investments accounted for using the equity method							Carrying amount	
	1 Jan. 2015	Changes in scope of consolidation	Depreciation and adjustments (+/-) to investments accounted for using the equity method	Impairments	Write-ups	Disposals	31 Dec. 2015	1 Jan. 2015	31 Dec. 2015
	-3,461	-	-	-15	-	20	-3,456	3,903	3,705
	12,632	-436	4,446	-10,177	5	87	6,557	27,105	20,937
	-11,305	-	-2,033	-	-	1,468	-11,870	67,752	68,704
	-2,134	**-436**	**2,413**	**-10,192**	**5**	**1,575**	**-8,769**	**98,760**	**93,346**

6.13 INTANGIBLE ASSETS

Intangible assets acquired for consideration such as software, and positive differences (goodwill) arising through business combinations as defined by IFRS 3 are reported here. Detailed information is given under Note 3.1 Basis of consolidation and Note 3.10 Intangible assets, and property, plant and equipment.

Depreciation, amortisation and impairments are shown in the statement of comprehensive income (see the summary in Note 5.6 Administrative expenses and the detailed disclosures in Note 5.6.3 Depreciation, amortisation and impairment). Gains and losses on disposal of property, plant and equipment are recognised under the "Net other operating income" item (Note 5.7). The additions and disposals reflect the various carrying amounts, and the related cash flows are shown in the consolidated statement of cash flows, under cash flows from investing activities.

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

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

6.14 PROPERTY, PLANT AND EQUIPMENT

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 details see Note 3.10 Intangible assets, and property, plant and equipment. The additions and disposals reflect the various carrying amounts, and the related cash flows are shown in the consolidated statement of cash flows, under cash flows from investing activities.

EUR '000	31 Dec. 2016	31 Dec. 2015
Property, plant and equipment		
Land and buildings	68,137	67,981
IT equipment	740	672
Equipment, fixtures and furnishings	8,588	11,444
Other property, plant and equipment	60	62
Total property, plant and equipment	**77,525**	**80,159**

The carrying amount of land as at 31 December 2016 was EUR 17,392thsd (2015: EUR 17,322thsd).

The fair value of land and buildings as at 31 December 2016 was EUR 78,480thsd (2015: EUR 73,456thsd).

6.15 INTANGIBLE ASSETS, AND PROPERTY, PLANT AND EQUIPMENT

	Cost				
EUR '000	1 Jan. 2016	Additions	Disposals	Transfers	31 Dec. 2016
Intangible assets					
Software	7,371	625	-78	-	7,918
Goodwill	877	-	-	-	877
Total intangible assets	**8,248**	**625**	**-78**	**-**	**8,795**
Property, plant and equipment					
Land and buildings	81,491	2,605	-620	-	83,476
IT equipment	4,195	421	-148	-	4,468
Equipment, fixtures and furnishings	38,283	934	-2,967	-	36,250
Other property, plant and equipment	105	20	-	-	125
Total property, plant and equipment	**124,074**	**3,980**	**-3,735**	**-**	**124,319**

	Cost				
EUR '000	1 Jan. 2015	Additions	Disposals	Transfers	31 Dec. 2015
Intangible assets					
Software	6,638	733	-	-	7,371
Goodwill	877	-	-	-	877
Total intangible assets	**7,515**	**733**	**-**	**-**	**8,248**
Property, plant and equipment					
Land and buildings	80,009	1,482	-	-	81,491
IT equipment	3,942	442	-326	137	4,195
Equipment, fixtures and furnishings	36,716	2,674	-1,067	-40	38,283
Other property, plant and equipment	105	-	-	-	105
Total property, plant and equipment	**120,772**	**4,598**	**-1,393**	**97**	**124,074**

	Depreciation and adjustments (+/-) to investments accounted for using the equity method					Carrying amount	
	1 Jan. 2016	Depreciation and amortisation	Impairments	Disposals	31 Dec. 2016	1 Jan. 2016	31 Dec. 2016
	-6,388	-712	-	100	-7,000	983	918
	-449	-	-428	-	-877	428	-
	-6,837	**-712**	**-428**	**100**	**-7,877**	**1,411**	**918**
	-13,510	-1,840	-	11	-15,339	67,981	68,137
	-3,523	-329	-	124	-3,728	672	740
	-26,839	-2,942	-	2,119	-27,662	11,444	8,588
	-43	-22	-	-	-65	62	60
	-43,915	**-5,133**	**-**	**2,254**	**-46,794**	**80,159**	**77,525**

	Depreciation and adjustments (+/-) to investments accounted for using the equity method					Carrying amount	
	1 Jan. 2015	Depreciation and amortisation	Impairments	Disposals	31 Dec. 2015	1 Jan. 2015	31 Dec. 2015
	-5,714	-674	-	-	-6,388	924	983
	-449	-	-	-	-449	428	428
	-6,163	**-674**	**-**	**-**	**-6,837**	**1,352**	**1,411**
	-11,667	-1,843	-	-	-13,510	68,342	67,981
	-3,503	-346	-	326	-3,523	439	672
	-24,664	-3,092	-	917	-26,839	12,052	11,444
	-25	-18	-	-	-43	80	62
	-39,859	**-5,299**	**-**	**1,243**	**-43,915**	**80,913**	**80,159**

6.16 TAX ASSETS

See Note 3.17 Tax assets and liabilities for a narrative discussion of income tax.

EUR '000	31 Dec. 2016	31 Dec. 2015
Current tax assets	20,333	19,653
Deferred tax assets	1,443	2,105
Total	**21,776**	**21,758**

Deferred tax assets were recognised in respect of the following items:

EUR '000	31 Dec. 2016	31 Dec. 2015
Loans and advances to customers	1,950	2,392
Risk provisions	739	57
Financial investments	28	23
Property, plant and equipment	24	30
Debts evidenced by certificates	6,347	6,426
Liabilities held for trading	2	11
Provisions	914	873
Other liabilities	1,300	1,314
Subordinated capital	23	128
Tax loss carryforwards	3,216	3,654
Deferred tax assets before offsetting	**14,543**	**14,907**
less deferred tax liabilities	-13,100	-12,802
Reported net deferred tax assets	**1,443**	**2,105**

No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 20,120thsd (2015: EUR 19,229thsd).

6.17 OTHER ASSETS

For a narrative discussion of this item see Note 3.11 Other assets.

EUR '000	31 Dec. 2016	31 Dec. 2015
Accruals and deferrals	1,332	1,444
Other receivables and assets	260,061	48,566
of which future finance lease assets	*233,618*	*-*
value added tax (VAT) and other tax credits (other than income tax)	*8,461*	*12,408*
property classified as inventory	*55*	*16,221*
trade receivables	*3,995*	*11,589*
collateral seized with the intention of disposal	*56*	*56*
Total	**261,393**	**50,010**

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

The decrease in property classified as inventory arises from the deconsolidation of NID AG and the project companies controlled by it. Details are given by Note 3.2 Investments and Note 5.8 Net gains or losses on disposal of consolidated subsidiaries.

6.18 DEPOSITS

Deposits from banks and from customers, including debts evidenced by certificates, are carried at amortised cost (see Note 6.19 Deposits from banks, Note 6.20 Deposits from customers and Note 6.21 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 5.2).

Where hedge accounting is applied, the movements in the fair value of the underlying are recognised in profit or loss, under the "Net gains or losses on hedges" item (Note 5.11).

6.19 DEPOSITS FROM BANKS

6.19.1 Geographical analysis

EUR '000	31 Dec. 2016	31 Dec. 2015
Domestic banks	257,591	791,261
Foreign banks		
CEE	33,755	74,927
Rest of the world	1,170,952	1,351,307
Total	**1,462,298**	**2,217,495**

During the reporting period the deposits from banks included "genuine" repurchase agreements, entered into by the Group as the transferor.

6.19.2 "Genuine" repurchase agreements (as the transferor)

The assets transferred under these agreements were loaned, with a contractual obligation to return them. The Group retained substantially all the risks and rewards of ownership.

These transactions are largely tri-party repos and collateralised loans from the ECB and the OeNB.

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 passes 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 (sold under a reverse repo agreement). The commercial banks receive liquid funds in return, in the form of central bank money. The collateral remains their property.

As at 31 December 2016 the carrying amount of the securities transferred under "genuine" repurchase agreements was nil (31 Dec. 2015: EUR 1,219,083thsd).

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

6.20 DEPOSITS FROM CUSTOMERS

6.20.1 Customer group analysis

EUR '000	31 Dec. 2016	31 Dec. 2015
Savings deposits	**948,739**	**838,918**
Demand and time deposits	**2,899,116**	**2,421,938**
Public sector customers	889,296	477,116
Business customers	1,377,405	1,476,815
Housing developers	126,604	76,476
Retail customers	451,250	343,329
Professionals	54,561	48,202
Total	**3,847,855**	**3,260,856**

6.20.2 Geographical analysis

EUR '000	31 Dec. 2016	31 Dec. 2015
Domestic customers	3,135,646	2,547,348
Foreign customers		
CEE	114,055	39,944
Rest of the world	598,154	673,564
Total	**3,847,855**	**3,260,856**

The deposits from customers include Mündelgeld savings deposits (trustee savings accounts); an analysis is shown below.

EUR '000	Trustee savings deposits	Guaranteed by the state government	Requiring coverage	Cover assets	Surplus coverage
31 Dec. 2016	6,382	266	6,116	7,000	884
31 Dec. 2015	4,727	252	4,476	9,834	5,358

6.21 DEBTS EVIDENCED BY CERTIFICATES

EUR '000	31 Dec. 2016	31 Dec. 2015
Covered and municipal bonds	4,268,363	4,115,458
Other bonds	3,430,202	4,050,119
Profit-sharing certificates	266	260
Total	**7,698,831**	**8,165,837**

Debts evidenced by certificates included EUR 305,052thsd (31 Dec. 2015: EUR 523,371thsd) in new issues floated during the reporting period. The Group repurchased issued debt amounting to EUR 102,816thsd (31 Dec. 2015: EUR 909,917thsd).

6.22 LIABILITIES HELD FOR TRADING

The negative fair value of derivatives not qualifying for hedge accounting is reported under this item. These instruments were recognised at fair value, while realised gains and losses, and measurement gains and losses are recognised through profit and loss as part of the "Net trading income" item (for a detailed analysis, see Note 5.5 Net trading income).

See narrative Note 3.5 Financial liabilities, part 2. Liabilities held for trading (HFT) for a discussion of these liabilities.

EUR '000	31 Dec. 2016	31 Dec. 2015
Negative fair value of financial instruments (banking book)		
Interest rate derivatives	500,148	497,468
Foreign exchange derivatives	2,806	19,501
Total	**502,954**	**516,969**

6.23 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.

Measurement gains and losses on fair value hedges are recognised in profit or loss, under the "Net gains or losses on hedges" item (Note 5.11).

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

EUR '000	31 Dec. 2016	31 Dec. 2015
Assets	**765,681**	**715,307**
Loans and advances to customers	631,647	575,130
Available-for-sale financial assets	134,034	140,177
Liabilities	**28,016**	**25,655**
Deposits from banks	109	16
Debts evidenced by certificates	27,907	25,639
Total	**793,697**	**740,962**

6.24 PROVISIONS

For information on the measurement methods applied to provisions, see Note 3.13 Provisions.

EUR '000	31 Dec. 2016	31 Dec. 2015
Employee benefit provisions	**37,722**	**36,959**
Provisions for pensions	24,644	23,571
Provisions for termination benefits	11,220	11,377
Provisions for jubilee benefits	1,858	2,011
Credit provisions	**3,377**	**3,398**
Other provisions	**9,056**	**15,437**
Total	**50,155**	**55,794**

6.24.1 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.

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.

A legal opinion was sought on the recognition of provisions for negative interest rates, and no obligation to recognise such provisions found, as legal action to force the payment of negative interest was held to be unlikely to succeed.

The maturity analyses did not reveal any significant interest rate effects.

EUR '000	1 Jan. 2016	Alloca-tions	Utilisation	Reversals	Discount unwinding effect	31 Dec. 2016
Employee benefit provisions	**36,959**	**789**	**-1,967**	**-107**	**2,048**	**37,722**
Provisions for pensions	23,571	57	-1,532	-	2,548	24,644
Provisions for termination benefits	11,377	544	-343	-	-358	11,220
Provisions for jubilee benefits	2,011	188	-92	-107	-142	1,858
Credit provisions	**3,398**	**211**	**-**	**-232**	**-**	**3,377**
Other provisions	**15,437**	**395**	**-313**	**-6,463**	**-**	**9,056**
Total	**55,794**	**1,395**	**-2,280**	**-6,802**	**2,048**	**50,155**

The increased reversals of other provisions are explained by the EUR 3,311thsd valuation of the debtor warrant (see the section on Pfandbriefbank (Österreich) AG in Note 8.6 Risk management). Because of the debtor warrant, no maturity has been assigned to this valuation; the interest effect is immaterial. In the previous reporting period, allocations to other provisions increased by EUR 10,866thsd due to the allocation to provisions for the debtor warrant.

The "Other provisions" item includes litigation costs, of which EUR 319thsd (2015: EUR 3,341thsd) were in dispute. The provisions for legal risks arising from pending proceedings connected with derivatives and credit restructuring in place at the end of 2015 were largely either fully utilised or reversed during the reporting period. A decision on the remainder is expected within the next 12 months.

EUR '000	1 Jan. 2015	Alloca-tions	Utilisation	Reversals	Discount unwinding effect	31 Dec. 2015
Employee benefit provisions	**38,342**	**773**	**-2,470**	**-**	**314**	**36,959**
Provisions for pensions	25,172	46	-1,623	-	-24	23,571
Provisions for termination benefits	11,553	583	-706	-	-53	11,377
Provisions for jubilee benefits	1,617	144	-141	-	391	2,011
Credit provisions	**3,469**	**101**	**-**	**-172**	**-**	**3,398**
Other provisions	**7,480**	**11,865**	**-1,361**	**-2,547**	**-**	**15,437**
Total	**49,291**	**12,739**	**-3,831**	**-2,719**	**314**	**55,794**

6.24.2 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.

The actuarial gains and losses are entirely attributable to the change in the financial assumptions applied.

The Group's defined benefit plans give rise to pension, termination benefit and jubilee benefit obligations. IAS 19 defines pension and termination benefit obligations as benefits that are payable after the completion of employment. Jubilee benefits are classified as other long-term employee benefits.

At present the Group has three defined benefit pension plans, and the remaining obligations have been transferred to an outside pension fund. The only other defined benefit obligations are to retired employees and their eligible survivors.

There are termination benefit obligations under the old legislation. These are to employees who entered the service of the Group before 1 January 2003 and did not receive termination benefits as a result of a group transfer. Under the new termination benefit legislation the benefits are contracted out to a termination benefit fund (see the "Expenses for provident fund" item in Note 5.6.1 Staff costs).

The jubilee benefits depend on employees' length of service, and are governed by the collective agreement applicable to the employment contract concerned.

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Present value of DBO at 31 Dec. 2014	**25,172**	**11,553**	**1,617**	**38,342**
Service cost	46	582	144	772
Interest cost	504	243	35	782
Payments	-1,623	-706	-141	-2,470
Actuarial gains and losses recognised in profit or loss	-	-	356	356
Actuarial gains and losses not recognised in profit or loss	-528	-295	-	-823
Present value of DBO at 31 Dec. 2015	**23,571**	**11,377**	**2,011**	**36,959**
Service cost	57	544	81	682
Interest cost	496	239	46	781
Payments	-1,532	-343	-92	-1,967
Actuarial gains and losses recognised in profit or loss	-	-	-188	-188
Actuarial gains and losses not recognised in profit or loss	2,052	-597	-	1,455
Present value of DBO at 31 Dec. 2016	**24,644**	**11,220**	**1,858**	**37,722**

The average duration of the pension obligation is 11.3 years, and that of the termination benefit obligation is 10.0 years.

Assumptions underlying employee benefit calculations

The first table shows the present values of the defined benefit obligations (DBOs) in respect of pensions, termination benefits and jubilee benefits as at 31 December 2016, and the service and interest cost, and underlying assumptions (discount rate, salary increases and pension increases) for 2016 on which the calculations are based. The amounts for members of the Supervisory and Management Boards and for key management are also shown.

These DBOs are subject to longevity and discount rate risk.

The other tables present sensitivity analyses that show how changes in some parameters (the discount rate, salary increases, increases in pensions and life expectancy) would affect the DBO recognised.

The first two calculations show the sensitivity to a change in the discount rate (plus or minus 0.25%) 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 the previous year's.

Reported present value of defined benefit obligation (DBO)

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Carrying amounts as at 31 Dec. 2016				
Discount rate 1.1%, salary increase 2.0%, pension increase 2.5%				
DBO	24,644	11,220	1,858	37,722
Current service cost (CSC) (2017 forecast)	65	539	156	761
Interest cost (INT) (2017 forecast)	272	129	22	423
of which Supervisory and Management boards				
DBO	*872*	*785*	*26*	*1,683*
CSC (2017 forecast)	*21*	*14*	*1*	*36*
INT (2017 forecast)	*10*	*9*	*-*	*19*
of which key management staff (identified staff)				
DBO	*-*	*300*	*51*	*351*
CSC (2017 forecast)	*-*	*12*	*4*	*16*
INT (2017 forecast)	*-*	*3*	*1*	*4*

DBO sensitivities of the provision for pensions in the event of changes in assumptions

Provision for pensions, EUR '000	DBO
Carrying amounts as at 31 Dec. 2016: +0.25% discount rate Discount rate 1.35%; salary increase 2.0%; pension increase 2.0%	23,966
Carrying amounts as at 31 Dec. 2016: -0.25% discount rate Discount rate 0.85%; salary increase 2.0%; pension increase 2.0%	25,356
Carrying amounts as at 31 Dec. 2016: +0.25% salary increase Discount rate 1.1%; salary increase 2.25%; pension increase 2.0%	24,678
Carrying amounts as at 31 Dec. 2016: -0.25% salary decrease Discount rate 1.1%; salary increase 1.75%; pension increase 2.0%	24,610
Carrying amounts as at 31 Dec. 2016: +0.25% pension increase Discount rate 1.1%; salary increase 2.0%; pension increase 2.25%	25,338
Carrying amounts as at 31 Dec. 2016: -0.25% pension decrease Discount rate 1.1%; salary increase 2.0%; pension increase 1.75%	23,981
Carrying amounts as at 31 Dec. 2016: +1 year life expectancy Discount rate 1.1%; salary increase 2.0%; pension increase 2.0%	25,858
Carrying amounts as at 31 Dec. 2016: -1 year life expectancy Discount rate 1.1%; salary increase 2.0%; pension increase 2.0%	23,474
Carrying amounts as at 31 Dec. 2016: previous year's discount rate Discount rate 2.1%; salary increase 2.5%; pension increase 2.0%	22,110

DBO sensitivities of the provision for termination benefits in the event of changes in assumptions

Provision for termination benefits, EUR '000	DBO
Carrying amounts as at 31 Dec. 2016: +0.25% discount rate Discount rate 1.35%; salary increase 2.0%; pension increase 2.0%	10,946
Carrying amounts as at 31 Dec. 2016: -0.25% discount rate Discount rate 0.85%; salary increase 2.0%; pension increase 2.0%	11,504
Carrying amounts as at 31 Dec. 2016: +0.25% salary increase Discount rate 1.1%; salary increase 2.25%; pension increase 2.0%	11,534
Carrying amounts as at 31 Dec. 2016: -0.25% salary decrease Discount rate 1.1%; salary increase 1.75%; pension increase 2.0%	10,917
Carrying amounts as at 31 Dec. 2016: previous year's discount rate Discount rate 2.1%; salary increase 2.5%; pension increase 2.0%	10,745

The HYPO NOE Group does not have any plan assets.

6.25 TAX LIABILITIES

See narrative Note 3.17 Tax assets and liabilities for details of income tax.

EUR '000	31 Dec. 2016	31 Dec. 2015
Current tax liabilities	20,127	10,073
Deferred tax liabilities	36,955	34,434
Total	**57,082**	**44,507**

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

Deferred tax liabilities were recognised in respect of the following statement of financial position items:

EUR '000	31 Dec. 2016	31 Dec. 2015
Loans and advances to customers	183,837	171,142
Risk provisions	318	783
Assets held for trading	129,795	134,176
Positive fair value of hedges (hedge accounting)	119,502	125,572
Financial investments	40,505	41,872
Provisions	2,240	566
Deferred tax liabilities before offsetting	**476,198**	**474,110**
Less deferred tax assets	-439,243	-439,676
Reported net deferred tax liabilities	**36,955**	**34,434**

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

6.26 OTHER LIABILITIES

Other liabilities include accruals and deferrals, and sundry other liabilities. See narrative Note 3.14 Other liabilities for details of this item.

EUR '000	31 Dec. 2016	31 Dec. 2015
Accruals and deferrals	27,555	26,461
Sundry other liabilities	101,875	79,836
of which trade payables	*28,270*	*21,474*
outstanding invoices	*47,227*	*26,802*
VAT and other tax liabilities (other than income tax)	*6,919*	*6,659*
legal and consultancy costs	*1,230*	*1,943*
phantom share based cash incentives	*1,339*	*1,736*
Total	**129,430**	**106,297**

6.27 SUBORDINATED CAPITAL

Subordinated liabilities and supplementary capital are reported as subordinated capital.

Subordinated liabilities are certificated or uncertificated liabilities which, in the event of liquidation or insolvency, are contractually subordinated to the claims of other creditors. Interest expense is reported under the "Interest and similar expense" item (Note 5.2).

EUR '000	31 Dec. 2016	31 Dec. 2015
Subordinated capital	202,381	205,449
of which subordinated loans	*1,453*	*1,453*

6.28 EQUITY

As was the case a year earlier, at 31 December 2016 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 2016 the share capital (issued capital) of HYPO NOE Gruppe Bank AG was also unchanged, at EUR 51,980,500; it is fully paid-up. Every share confers the right to one vote. In 2015 a dividend of EUR 2,000,000 was paid to the owners. This corresponds to a rounded-up dividend yield of EUR 0.28 per share. Management proposes the distribution of EUR 7,000,000 in dividends in 2017.

The Management Board is empowered to issue additional core capital as defined by the CRR.

The capital reserves contain the share premiums paid in excess of nominal value when shares are issued.

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, 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 from 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 currency translation reserve includes the exchange differences in respect of the companies accounted for using the equity method.

The non-controlling interests are minority interests in subsidiaries, and are reported as a separate equity item, in accordance with IAS 1.

A summary of equity items is shown below. Additional information is presented in the consolidated statement of changes in equity.

EUR '000	31 Dec. 2016	31 Dec. 2015
Share capital	51,981	51,981
Capital reserves	191,824	191,824
of which appropriated reserve	*94,624*	*94,624*
unappropriated reserve	*97,200*	*97,200*
Revaluation surplus	35,817	35,853
Retained earnings	359,327	293,197
Equity attributable to owners of the parent	**638,949**	**572,855**
Non-controlling interests	8,419	8,624
Total	**647,368**	**581,479**

6.29 CONSOLIDATED OWN FUNDS AND REGULATORY OWN FUNDS REQUIREMENTS

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

In order to increase the resilience of Austrian banks against specific systemic risks, in December 2015 the FMA imposed an additional equity buffer (systemic risk buffer) at consolidated group level on 11 domestic banks, in the form of a hard core capital ratio of 1%. The HYPO NOE Group was therefore obliged to factor this buffer into the hard core capital requirement with effect from 1 January 2016.

The phased introduction of the capital conservation buffer began at the start of 2016. When complete in 2019, this will represent an additional own funds requirement in the form of hard core capital of 2.5%.

Determination of the additional own funds requirement (likewise in the form of hard core capital) created by the countercyclical capital buffer also commenced at the beginning of 2016. The calculation basis is defined exposures to given countries; in 2016 these were Hong Kong (0.625%), Norway (1.5%) and Sweden (1.5%). Sweden and Norway are increasing their buffers in 2017 (both to 2%), as is Hong Kong (to 1.25%), and other countries will later also be introducing buffers at differing dates. These are the Czech Republic, Slovakia and the United Kingdom (all 0.5%). The Group was not confronted with a major increase in its equity needs in 2016 as a result of these buffer requirements (EUR 88thsd or 0.002% as at 31 Dec. 2016), and the announced changes only raise the own funds requirement to about EUR 1m or 0.026%, which is still insignificant.

The banking supervisors judge the adequacy of the banks' capital on the basis of the risk assessment performed as part of the supervisory review and evaluation process (SREP). In the course of the SREP, the supervisors also examine the banks' leverage ratios and gauge whether there is a need for additional capital buffers.

The process of assessing capital adequacy and the need to set additional capital requirements largely comes down to three factors: the risk of unexpected losses and of expected losses that are not covered by sufficient assets over a 12-month period; underestimation of risks due to deficiencies in the internal risk models; and risks arising from weaknesses in internal governance, including the internal control system and other process vulnerabilities.

The SREP guidelines provide for two benchmarks of banks' capital adequacy. One is the total SREP capital requirement (TSCR). This is the sum of the capital requirements under Article 92 CRR and additional capital requirements to be specified in more detail by the supervisory authorities. The other is the overall capital requirement (OCR) – the sum of the TSCR, the capital buffers and the macro-prudential requirements.

HYPO NOE Gruppe Bank and the HYPO NOE Group expect a TSCR to be set during the first half of 2017. Experience of the process to date suggests that the Bank has sufficient capital to meet this requirement.

The core capital ratio as at the end of the reporting period was 16.3% and the equity ratio 17.1%, and as no developments that would lead to a significant reduction are anticipated in 2017, this additional regulatory requirement should be comfortably met, along with the others.

Capital management

Determination of capital requirements and investment opportunities

We aim to manage the Company's capital in a responsible and value-led manner, in the interest of its owner. The methods primarily used are budget and scenario analysis. Taking the current capital situation as their starting point, these seek to capture defined economic assumptions in the following business scenarios over a five-year, medium-term planning horizon:
- Base case including assumed IFRS 9 initial impacts;
- Scenarios reflecting changes in the regulatory environment (e.g. Basel 4 and BCBS 347);
- Assessment of the compatibility of the calculations of risk-bearing capacity (Pillar II) with the planning assumptions made.

Communication of the results as an aid to capital management decision-making

The Group's budget and medium-term planning takes place in close consultation with all the market departments, Treasury & ALM, Group Strategic Risk Management, Group Controlling, Strategic Planning, Human Resources, Group Finance, Regulatory Reporting & Tax Advisory, Group Participations and the chief executives of the subsidiaries concerned. There are regular liaison discussions with the Management Board. The medium-term plan is usually approved by the Management Board on an annual basis and notified to the Supervisory Board.

If the budget and scenario analysis indicates a need for capital management actions, the latter may involve reducing or suspending dividend payments, rights issues (capital market), and/or balance sheet reductions.

Basel Committee on Banking Supervision (BCBS) Paper 277

The above objectives, methods and processes mean that the HYPO NOE Group essentially conforms to the four components of good practice put forward by BCBS Paper 277 entitled "A Sound Capital Planning Process: Fundamental Elements":
- Internal control and governance;
- Capital policy and risk capture;
- Forward-looking view;
- Management framework for preserving capital.

Capital management actions in 2016

The risk weighted asset (RWA) optimisation project launched in 2015 were implemented in 2016.

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

EUR '000 **31 Dec. 2016**	**CRR/CRD IV** **31 Dec. 2015**	**CRR/CRD IV**
Share capital	136,546	136,546
of which paid-up capital instruments	*51,981*	*51,981*
premiums	*84,566*	*84,566*
Reserves, differences and non-controlling interests	489,801	423,200
of which retained earnings	*348,792*	*282,249*
other reserves	*104,744*	*104,744*
transitional adjustments for additional minority interests	*242*	*363*
accumulated comprehensive income	*36,024*	*35,845*
Prudential filter: adjustments based on the requirements for prudential measurement	-4,350	-4,487
Other adjustments to hard core capital	-16,631	-24,180
Intangible assets	-834	-824
Hard core capital	604,533	530,256
Additional core capital	-	-
Core capital (Tier 1 capital)	**604,533**	**530,256**
Deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible core capital	**604,533**	**530,256**
Eligible subordinated debt issued by the Group's parent	21,692	51,758
Eligible subordinated debt issued by subsidiaries	6,504	15,662
of which grandfathering	*476*	*2,366*
Supplementary capital (Tier 2 capital)	**28,196**	**67,419**
Holdings subject to deductions pursuant to Arts. 36 and 89 CRR	-	-
Eligible supplementary capital (after deductions)	**28,196**	**67,419**
Total eligible capital	**632,730**	**597,675**
Capital requirement	**295,994**	**315,497**
Surplus capital	**336,736**	**282,178**
Coverage ratio	213.76%	189.44%
Tier 1 capital ratio (%) in accordance with Art. 92(2)(b) CRR	16.34%	13.45%
Tier 1 capital ratio (%) in accordance with Art. 92(2)(b) CRR (fully phased in)	16.78%	14.05%
Total capital ratio in % in accordance with Art. 92(2)(c) CRR	17.10%	15.16%
Total capital ratio in % in accordance with Art. 92(2)(c) CRR (fully phased in)	17.53%	15.70%

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

EUR '000	CRR/CRD IV, 31 Dec. 2016	CRR/CRD IV, 31 Dec. 2015
Risk-weighted assessment base for credit risk	3,265,067	3,485,514
of which 8% minimum capital requirement	261,205	278,841
Capital requirement for open currency positions	-	-
Capital requirement for operational risk	23,704	23,262
Capital requirement for CVA	11,085	13,394
Total capital requirement	**295,994**	**315,497**

In 2016 the Group's risk weighted assets were EUR 3.265bn – down by EUR 220m year on year. The most significant reductions, totalling EUR 238m, were in the "exposures to corporates" and the "commercial building finance" component of "exposures secured by mortgages on immovable property", which are interlinked by mortgage collaterals. The decline was to be expected given the overall decrease of EUR 536m in the related exposures.

At EUR 480m, the "state governments and local authorities" exposure class was a major contributor to the reduction of EUR 1.167bn in total receivables. The background to this is the fact that regulatory changes currently under discussion at European level and set for introduction before long may impose additional burdens on the HYPO NOE Group, for which provision must already be made.

The "exposures in default" exposure class also fell, by a substantial EUR 298m. This chiefly reflected the positive outcome of the HETA case.

The RWA optimisation project initiated during the first half of 2015 and almost entirely completed during the same year was finalised during the reporting period. The savings, most of which were visible in the 2015 RWA figures as non-recurring effects, were solidified by the improvements made to processes and methods.

As at 31 December 2016, the HYPO NOE Group's Tier 1 capital ratio was 16.3% – an increase of 289 basis points on the 13.4% recorded a year earlier.

The equity ratio was 17.1% as at 31 December 2016. This corresponded to an increase of 195 basis points as compared to the 15.2% ratio as at year-end 2015.

As a result, in 2016 the Group far exceeded the total minimum regulatory requirements in terms of core capital and total capital ratios of 4.5% and 8.0% respectively, and the combined capital buffer requirements of 1.625%. It is also extremely well placed to meet the additional requirements that are due to be imposed in coming years.

7. SEGMENT INFORMATION

The Bank's segment reporting is in accordance with IFRS 8. The segment information is derived from the quarterly reports submitted to the Management Board, which is the "chief operating decision maker". The reports contain a statement of profit or loss for each segment, as well as clarifications of material changes in items in the statement of financial position as against the comparative period, also by segment.

Profit/loss before tax is also included to support the chief operating decision maker in monitoring segment performance. The items following "Profit/loss for the year before tax" ("Income tax expense" and "Non-controlling interests") in the segment information reconcile the segmental analysis with profit/loss in the consolidated financial statements. Supplementary to profit/loss before tax, and for the purposes of more detailed analysis, net interest income for the Gruppe Bank, Landesbank and Leasing segments – the main contributors to income – is included, as are credit risk provisions. Other items are included where they have significant effects. In the Other segment, which cooperates closely with other segments within the Group's property services value chain, net other operating income is an important performance indicator alongside profit/loss before tax.

Net interest income is a key figure reported to the Management Board. Both total net interest income and the changes over time play important roles in decision making; fluctuations in the gross items (interest income and interest expense) are not as informative as the netted figure, since they correlate with the yield curve.

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. A geographical breakdown of segment information was not prepared, since the cost of preparation was not outweighed by the benefits, and the Group's main focus is on the domestic market.

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, Corporate Finance and Treasury). The segment primarily offers banking transactions, corporate and real estate finance and treasury services to this target group.

Landesbank

As in the previous reporting period, these subgroup statements are for two subsidiaries, and contain the retail and corporate customer operations, with the emphasis on housing finance, as well as 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. The products offered by this segment are aligned with the Bank's core competences in terms of the needs that it aims to meet, namely finance and housing, saving and investment, and accounts and cards.

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 49 (2015: 46) consolidated subsidiaries. A consolidated company reported under the Other segment (HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH) and its parent company (HYPO Omega Holding GmbH) were transferred to the Leasing segment due to the conclusion of a finance lease in place of a rental agreement (IAS 40). ARTES Grundstückvermietungs GmbH, an AFS investment, began operations (see Note 3.1 Basis of consolidation).

This segment focuses on leasing solutions for the public sector and public agencies. It provides the following products: complex lease agreements relating to real estate projects, real estate project management services and business management services.

Other

This segment provides information on a subgroup with 17 subsidiaries (2015: 25) which are neither leasing companies nor banks.

The disposals in the Other segment in 2016 resulted from the consolidation of the real estate portfolio with a view to creating investor-friendly structures and optimising the implementation of development projects at the planning stage (see Note 3.1 Basis of consolidation), as well as the reassignment of two companies to the Leasing segment.

The segment's activities comprise property development, construction, management and marketing. In addition, the segment offers integrated facility management (FM) and technical FM (e.g. electrical, heating, ventilation and air conditioning [HVAC], and sanitary installations) services for technically advanced and complex properties as part of the HYPO NOE Group's real estate value chain.

Consolidation

This segment is used to provide information on consolidation adjustments.

Further details can be found in Note 7.1.1 Segment profit or loss before tax and Note 7.1.2 Segment assets and liabilities.

Details of the assignment of companies to the various segments are provided in Note 3.2 Investments.

7.1 BUSINESS SEGMENT INFORMATION

7.1.1 Segment profit or loss before tax

The internal segmental reporting ends with profit/loss before tax. The "Income tax expense" and "Non-controlling interests" items, in the Total column, reconcile the segmental analysis with the items in the consolidated financial statements. The presentation in the notes reflects internal reporting.

Gruppe Bank

Compared with 2015, there was a decrease in net interest income adjusted for credit risk provisions, which was more than offset by substantial non-recurring income from the sale of KAF (Carinthian Compensation Payment Fund) zero-coupon bonds, for which the Group exchanged its holdings of Heta securities. In spite of the negative effects of the statutory contributions to the resolution fund and the financial stability contribution ("bank tax"), which are included in other administrative expenses, and the measurement loss recognised for the non-profit EWU subgroup under net gains or losses on investments accounted for using the equity method (further details are given in Note 3.2.3 Associates and joint ventures, under "Detailed disclosures on material joint ventures accounted for using the equity method and associates in the Gruppe Bank segment"), the segment reported a large profit for the year before tax.

Landesbank

In comparison with the previous year, the Landesbank segment reported increased income from its core business (net interest income, and net fee and commission income), as well as strong net gains on credit risk provisions as a result of effective workout management and lower risk costs. Despite the burdens of the statutory contributions to the resolution fund and the financial stability contribution ("bank tax"), other administrative expenses decreased year on year. High non-recurring income from the sale of Carinthian Compensation Payment Fund zero-coupon bonds, received under the tender and exchange offer for Heta securities, played a part in the sharp increase in profit before tax.

Leasing

Leasing projects worth around EUR 48m were contractually agreed in the Leasing segment in 2016, of which approximately EUR 38m related to real estate leases and EUR 10m to equipment leasing.

Among the real estate leasing projects contractually agreed before 2016, the ongoing St. Pölten, Mistelbach and Mödling state hospital expansions were of particular importance. 2016 saw the handover of the commercial college part of the BSZ Eisenstadt business education centre, a joint venture with STRABAG. Handover of the entire facility is scheduled for summer 2017. The handover of Hietzing Kindergarten – another project structured as a PPP – took place on schedule in 2016.

The following factors had a significant impact on the year-on-year change in earnings:
- The handover of large real estate leasing projects in 2016 meant that the income contributions from these schemes were up to par for the leasing business (the interest margins recorded during the construction phase are not recognised until handover).
- The 2016 results included a positive one-time effect from the reclassification of an operating lease as a finance lease in one subsidiary.

Details of the client structure (some 99% of the lessees are local authorities, mainly in Lower Austria) can also be found in Notes 8.3 Leasing disclosures and 8.5 Disclosures on related-party relationships.

Other

The pre-tax loss for the year for the Other segment improved markedly in 2016, mainly as a result of the following factors:

- Effects of disposals: the planned move to a new real estate structure was implemented. The profit reported under the "Net gains or losses on disposal of consolidated subsidiaries" item (Note 5.8) was a one-time gain entirely attributable to the Other segment.
- Due to the sale of an interest in NOE Immobilien Development AG and its reclassification as an investment accounted for using the equity method, a delta amount of EUR 1,271thsd was recognised under the "Goodwill allocated to assets" item.
- A goodwill impairment of EUR 417thsd on HYPO NOE First Facility GmbH, a subsidiary acquired in 2012, was also recognised in the Other segment.

Consolidation

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

2015, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Net interest income	95,313	39,532	4,772	-822	-7,955	130,840
Credit risk provisions	-3,462	4,665	-	-32	-	1,171
Net interest income after risk provisions	**91,851**	**44,197**	**4,772**	**-854**	**-7,955**	**132,011**
Net fee and commission income	1,629	12,311	-52	-38	-	13,850
Net trading income	3,221	21	-	-	-	3,242
Net losses on hedges	-1,263	-624	-	-	-	-1,887
Net gains or losses on financial assets measured using the fair value option	-126	-	-	-	-	-126
Net gains or losses on available-for-sale financial assets	-25,175	-2,646	6	-11	-	-27,825
Net gains or losses on other financial investments	-5	-264	444	2,388	-1,314	1,249
Net other operating income	16,680	2,464	3,317	16,336	-13,797	25,000
Operating income after credit risk provisions	**86,811**	**55,459**	**8,487**	**17,821**	**-23,066**	**145,513**
Staff costs	-29,056	-24,517	-2,714	-10,866	-	-67,153
Other administrative expenses	-41,007	-22,742	-1,789	-5,552	15,112	-55,979
Depreciation and amortisation (excl. investment properties)	-1,917	-1,824	-117	-2,121	-	-5,979
Operating expense	**-71,980**	**-49,083**	**-4,621**	**-18,539**	**15,112**	**-129,111**
Net gains or losses on disposal of consolidated subsidiaries	-	-	-	-	-	-
Net gains or losses on investments accounted for using the equity method	-5,145	-	-30	431	-	-4,744
Profit for the year before tax	**9,686**	**6,376**	**3,836**	**-287**	**-7,954**	**11,659**
Income tax expense						-5,255
Profit for the year						**6,404**
Non-controlling interests						-252
Profit attributable to owners of the parent						**6,152**

7.1.2 Segment assets and liabilities

31 Dec. 2016, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	134,988	29,594	-	5	-	164,587
Loans and advances to banks	1,228,396	325,155	41,073	8,832	-605,109	998,347
Loans and advances to customers	8,754,467	2,093,808	2,131,982	13,159	-2,138,484	10,854,932
Risk provisions	-52,500	-42,634	-2,265	-64	1	-97,462
Assets held for trading	555,293	80	-	-	-80	555,293
Positive fair value of hedges (hedge accounting)	506,320	26,446	-	-	-49,551	483,215
Available-for-sale financial assets	1,926,787	240,159	7,435	136	-207,369	1,967,148
Financial assets designated as at fair value through profit or loss	20,340	-	-	-	-	20,340
Investments accounted for using the equity method	11,415	-	2,295	16,212	-	29,922
Investment property	-	-	10,846	43,271	-	54,117
Intangible assets	562	248	2	105	1	918
Property, plant and equipment	4,505	6,456	511	66,053	-	77,525
Tax assets	19,359	295	1,737	385	-	21,776
Other assets	7,274	4,870	283,665	12,192	-46,608	261,393
Total assets	**13,117,206**	**2,684,477**	**2,477,281**	**160,286**	**-3,047,199**	**15,392,051**
Equity and liabilities						
Deposits from banks	1,676,080	236,757	2,140,089	104,304	-2,694,932	1,462,298
Deposits from customers	1,950,282	1,827,028	120,315	1,191	-50,961	3,847,855
Debts evidenced by certificates	7,337,019	397,600	266	53	-36,107	7,698,831
Liabilities held for trading	502,954	80	-	-	-80	502,954
Negative fair value of hedges (hedge accounting)	815,008	28,240	-	-	-49,551	793,697
Provisions	37,656	10,420	1,075	1,004	-	50,155
Tax liabilities	30,671	4,831	19,742	1,758	80	57,082
Other liabilities	26,530	14,575	82,628	8,624	-2,928	129,429
Subordinated capital	190,807	50,120	2,907	-	-41,453	202,381
Equity (incl. non-controlling interests)	550,199	114,826	110,259	43,352	-171,267	647,369
Equity attributable to owners of the parent	550,199	114,826	101,840	43,352	-171,267	638,950
Non-controlling interests	-	-	8,419	-	-	8,419
Total equity and liabilities	**13,117,206**	**2,684,477**	**2,477,281**	**160,286**	**-3,047,199**	**15,392,051**

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

7.1.3 Key indicators by segment

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

2016, EUR '000		Gruppe Bank	Landesbank	Leasing	Other	Total
Cost/income ratio (CIR)	Operating expenses/operating income*	46.7%	74.1%	52.9%	77.6%	56.0%

2015, EUR '000		Gruppe Bank	Landesbank	Leasing	Other	Total
Cost/income ratio (CIR)	Operating expenses/operating income*	84.6%	96.6%	54.6%	101.4%	92.5%

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

7.2 GEOGRAPHICAL INFORMATION

The table below shows the main items on the statement of financial position broken down by domestic and foreign business.

	31 Dec. 2016		31 Dec. 2015	
EUR '000	Domestic	Foreign	Domestic	Foreign
Loans and advances to banks	112,712	885,635	115,777	806,314
Loans and advances to customers	9,661,128	1,193,804	10,153,127	1,404,160
Active operations – foreign customers		7.76%		8.83%
Available-for-sale financial assets	527,972	1,439,176	695,880	1,408,457
Financial assets designated as at fair value through profit or loss	-	20,340	4,118	-
Deposits from banks	257,591	1,204,707	791,261	1,426,234
Deposits from customers	3,135,646	712,209	2,547,348	713,508
Debts evidenced by certificates	2,521,068	5,177,763	2,806,715	5,359,122

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

8. SUPPLEMENTARY INFORMATION

8.1 FAIR VALUE DISCLOSURES IN ACCORDANCE WITH IFRS 7 AND IFRS 13

The nature and extent of the risks associated with financial instruments, further sensitivity analyses and other disclosures also form part of Note 8.6 Risk management.

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

8.1.1 Fair value

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

	31 Dec. 2016		31 Dec. 2015	
EUR '000	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Loans and advances to banks	992,739	998,347	913,961	922,091
Loans and advances to customers1	10,863,776	10,762,005	11,697,120	11,461,974
Assets held for trading	555,293	555,293	586,811	586,811
Positive fair value of hedges	483,215	483,215	509,458	509,458
Available-for-sale financial assets	1,967,148	1,967,148	2,104,338	2,104,338
Financial assets designated as at fair value through profit or loss	20,340	20,340	4,118	4,118
Investments accounted for using the equity method	29,922	29,922	20,937	20,937
Investment property	55,872	54,117	76,524	68,704
Sundry other assets	261,396	261,393	50,388	50,010
Total assets	**15,229,701**	**15,131,780**	**15,963,655**	**15,728,441**
Equity and liabilities				
Deposits from banks	1,464,085	1,462,298	2,199,359	2,217,495
Deposits from customers	3,844,685	3,847,855	3,280,790	3,260,856
Debts evidenced by certificates	7,850,003	7,698,831	8,161,236	8,165,837
Liabilities held for trading	502,954	502,954	516,969	516,969
Negative fair value of hedges	793,697	793,697	740,962	740,962
Other liabilities	129,692	129,429	106,298	106,297
Subordinated capital	182,434	202,381	185,088	205,449
Total equity and liabilities	**14,767,550**	**14,637,445**	**15,190,702**	**15,213,865**

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

8.1.2 Fair value hierarchy disclosures

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

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

Level 1: quoted prices in active markets

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

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

Level 2: valuation techniques based on observable inputs

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

Measurement is based on directly or indirectly observable inputs for similar assets: an income approach is 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 in the capital market are 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 is applied to determine the discounted value of all future payments at a specified measurement date (net present value). The interest rate curves directly observable on money and capital markets, and upward valuation adjustments based on internal, unobservable pricing models are employed as pricing parameters. Where the risk associated with future payments is taken into account by means of appropriate 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 participating interests (a list of AFS investments of over 20% can be found in Note 3.2.4 Interests in excess of 20% in associates classified as financial instruments in accordance with IAS 39) is described in the section on available-for-sale (AFS) financial assets under Note 3.4 Financial assets. In the case of the HYPO NOE Group's holdings in non-consolidated subsidiaries (over 50%), associates (20-50%) and other investments (participating interests of less than 20%), fair value is measured using the DCF method. Alternatively, the dividend discount model or the market value method may be applied.

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.

The value of investment properties recognised at cost was measured by professional assessors in 2016 (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 recognised at acquisition or construction cost, is reported under other assets: the applicable fair values are determined by a comparative value approach using unobservable market data from comparable market transactions such as gains on disposal and disclosed under Level 3. For the remaining other assets, the carrying amounts represent a reasonable estimate of fair value.

		Fair value measurement		
31 Dec. 2016, EUR '000	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Loans and advances to banks	992,739	-	989,861	2,878
Loans and advances to customers	10,863,776	-	45,542	10,818,234
Assets held for trading	555,293	-	53,448	501,845
Positive fair value of hedges	483,215	-	483,215	-
Available-for-sale financial assets	1,967,148	1,766,239	64,442	136,467
Financial assets designated as at fair value through profit or loss	20,340	-	-	20,340
Investments accounted for using the equity method	29,922	-	-	29,922
Investment property	55,872	-	-	55,872
Sundry other assets	261,396	-	-	261,396
Total assets	**15,229,701**	**1,766,239**	**1,636,508**	**11,826,954**
Equity and liabilities				
Deposits from banks	1,464,085	-	1,354,791	109,294
Deposits from customers	3,844,685	-	-	3,844,685
Debts evidenced by certificates	7,850,003	3,584,859	4,251,455	13,689
Liabilities held for trading	502,954	-	502,954	-
Negative fair value of hedges	793,697	-	793,697	-
Other liabilities	129,692	-	-	129,692
Subordinated capital	182,434	-	180,981	1,453
Total equity and liabilities	**14,767,550**	**3,584,859**	**7,083,878**	**4,098,813**

The fair value of properties in accordance with IAS 16 was EUR 78,480thsd – well above the carrying amount of EUR 68,137thsd.

Detailed information on Level 3 financial assets measured at fair value is shown in Note 8.1.3 Fair value hierarchy: Level 3 disclosures.

In 2016 there were no transfers of individual financial instruments between the different levels of the fair value hierarchy.

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

8.1.3 Fair value hierarchy: Level 3 disclosures

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

EUR '000	1 Jan. 2016	Gains or losses: In profit or loss	Gains or losses: In other comprehensive income	Purchases	Settlements	Transfers to/ from Level 3	Reclassification	31 Dec. 2016	Gains/losses recognised in profit and loss on assets held as at 31 Dec. 2016
Assets									
Assets held for trading	525,386	-23,541	-	-	-	-	-	501,845	-15,024
Available-for-sale financial assets	275,309	26,395	-515	10,092	-174,794	-	-20	136,467	-
Financial assets designated as at fair value through profit or loss	-	311	-	20,465	-437	-	-	20,340	318
Sundry other assets	-	-	-	-	-	-	-	-	-
Total assets	**800,695**	**3,165**	**-515**	**30,557**	**-175,231**	**-**	**-20**	**658,652**	**-14,706**
Equity and liabilities									
Liabilities held for trading	-	-	-	-	-	-	-	-	-
Total equity and liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The gains or losses on Level 3 assets are largely composed of the losses of EUR 15,024thsd on assets held for trading (2015: losses of EUR 81,451thsd) discussed in Note 5.5. Net gains on financial assets designated as at fair value through profit or loss, at EUR 318thsd (2015: nil), are commented on in Note 5.10 Net gains or losses on financial assets designated as at fair value through profit or loss.

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

8.1.4 Level 3 sensitivity analysis

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

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

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

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

	31 Dec. 2016		31 Dec. 2015	
EUR '000	Positive changes in fair value	Negative changes in fair value	Positive changes in fair value	Negative changes in fair value
Derivatives	-	-2,135	-	-2,048
Securities	-	-1,420	-	-1,686
Loans measured using the FVO	-	-58	-	-
Total	**-**	**-3,613**	**-**	**-3,735**

8.1.5 Offsetting of financial assets and liabilities

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

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

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

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

8.2 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 (DCF). OTC currency and interest rate options are measured using common option pricing models such as the Black Scholes or Hull White models.

	31 Dec. 2016			31 Dec. 2015		
	Nominal value	Fair value			Fair value	
EUR '000		Positive	Negative	Nominal value	Positive	Negative
Derivatives held for trading						
Interest rate	5,999,574	545,164	500,148	6,390,161	553,839	497,468
Foreign currencies and gold	994,489	7,026	2,806	721,396	20,880	19,501
Total	**6,994,063**	**552,190**	**502,954**	**7,111,557**	**574,719**	**516,969**
Fair value hedges						
Interest rate	11,213,219	469,229	785,519	11,822,606	499,554	725,296
Foreign currencies and gold	289,724	13,986	8,178	283,956	9,904	15,666
Total	**11,502,943**	**483,215**	**793,697**	**12,106,562**	**509,458**	**740,962**

8.3 LEASING DISCLOSURES

Finance lease disclosures (with the Group as lessor)

EUR '000	31 Dec. 2016	31 Dec. 2015
Gross investment	**2,303,071**	**1,858,546**
Minimum lease payments	2,148,044	1,726,376
Up to 1 year	153,054	132,195
From 1 to 5 years	525,003	430,527
Over 5 years	1,469,987	1,163,654
Unguaranteed residual value	155,027	132,170
Unearned finance income	**-231,244**	**-231,747**
Up to 1 year	-22,171	-21,815
From 1 to 5 years	-76,939	-75,499
Over 5 years	-132,134	-134,433
Net investment	**2,071,827**	**1,626,799**

Net investment in finance leases is included under Note 6.4 Loans and advances to customers. Note 3.8 above describes the accounting and valuation policies applied.

The Lower Austrian state government and Lower Austrian local authorities account for approximately 99% (2015: approx. 98%) of the finance leases written.

The rest of the lessees are business customers, other public agencies and associations.

About 94% (2015: 94%) of the lease assets in question are property, but a small amount of equipment is also involved – 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. 2016	31 Dec. 2015
Minimum lease payments	2,148,044	1,726,376
Unearned finance income	-231,244	-231,747
Net present value of minimum lease payments	**1,916,800**	**1,494,629**
Unguaranteed residual value	155,027	132,170
Net investment	**2,071,827**	**1,626,799**

Operating lease disclosures (with the Group as lessor)

EUR '000	31 Dec. 2016	31 Dec. 2015
Future minimum lease payments on non-cancellable leases	**3,295**	**2,628**
Up to 1 year	227	312
From 1 to 5 years	909	2,316
Over 5 years	2,159	-

8.4 ANALYSIS OF ASSETS AND LIABILITIES BY IAS 39 MEASUREMENT CATEGORIES

31 Dec. 2016, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Assets held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Availa-ble-for-sale (AFS) assets	Fair value hedge	Financial assets/ liabilities at cost (amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	164,587	164,587
Loans and advances to banks	998,347	-	-	-	-	-	-	998,347
Loans and advances to customers	10,854,932	-	-	-	-	-	-	10,854,932
Risk provisions	-97,462	-	-	-	-	-	-	-97,462
Assets held for trading	-	-	555,293	-	-	-	-	555,293
Positive fair value of hedges	-	-	-	-	-	483,215	-	483,215
Available-for-sale financial assets	-	-	-	-	1,967,148	-	-	1,967,148
Financial assets designated as at fair value through profit or loss	-	-	-	20,340	-	-	-	20,340
Investments accounted for using the equity method	-	-	-	-	-	-	29,922	29,922
Investment property	-	-	-	-	-	-	54,117	54,117
Other financial assets1	260,061	-	-	-	-	-	-	260,061
Total financial assets	**12,015,878**	**-**	**555,293**	**20,340**	**1,967,148**	**483,215**	**248,626**	**15,290,500**
Deposits from banks	-	1,462,298	-	-	-	-	-	1,462,298
Deposits from customers	-	3,847,855	-	-	-	-	-	3,847,855
Debts evidenced by certificates	-	7,698,831	-	-	-	-	-	7,698,831
Liabilities held for trading	-	-	502,954	-	-	-	-	502,954
Negative fair value of hedges	-	-	-	-	-	793,697	-	793,697
Subordinated capital	-	202,381	-	-	-	-	-	202,381
Other financial liabilities1	-	101,874	-	-	-	-	-	101,874
Total financial liabilities	**-**	**13,313,239**	**502,954**	**-**	**-**	**793,697**	**-**	**14,609,890**

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

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

8.5 DISCLOSURES ON RELATED-PARTY RELATIONSHIPS

31 Dec. 2016, EUR '000	Investors with 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 customers	2,852,241	111,291	241,699	25,096	9,267	5,395
of which lease receivables	*2,011,442*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	106	25,683	2,917	502	-
Positive fair value of derivatives	92,517	-	-	-	-	-
Other assets	174,367	-	-	-	-	-
Deposits from banks	-	-	-	291	-	-
Deposits from customers	49,954	445	38,467	771	7,039	6,591
Other liabilities	-	-	6	501	-	-
Interest income	18,724	458	5,127	436	61	22
Interest on debt capital	-	-	-42	-1	-12	-5
Dividend income	-	-	591	271	10	-
Fee and commission income	-	2	218	1	4	24
Fee and commission expense	-	-	-	-	-	-11
Increase or decrease in impairment losses and provisions for impaired debt instruments, defaulted guarantees and defaulted obligations during the reporting period	-	-	1	-	-	12
Guarantees provided by the Group	-	-	2,675	-	-	7
Other obligations incl. unused credit lines	458,158	44,729	27,674	24,813	10,457	86
Guarantees received by the Group	2,812,970	-	-	-	-	-
Credit risk provisions, individual and collective impairment allowances	-	-	21	13	-	21

31 Dec. 2015, EUR '000	Investors with 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 customers	2,947,941	112,329	212,958	11,207	12,706	4,092
of which lease receivables	*1,578,162*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	931	18,641	2,422	487	-
Positive fair value of derivatives	90,646	-	-	-	-	-

Other assets	-	-	238	-	-	-
Deposits from banks	-	-	-	1,228	-	-
Deposits from customers	32,657	743	17,229	1,370	6,146	4,932
Other liabilities	-	-	-	301	-	-
Interest income	18,388	501	6,009	67	104	22
Interest on debt capital	-	-1	-27	-1	-12	-6
Dividend income	-	-	1,042	518	446	-
Fee and commission income	-	272	57	1	4	-
Fee and commission expense	-	-691	-13	-	-	-8
Increase or decrease in impairment losses and provisions for impaired debt instruments, defaulted guarantees and defaulted obligations during the reporting period	-	-	3	-	-	-2
Guarantees provided by the Group	-	-	8,151	-	-	7
Other obligations incl. unused credit lines	545,585	6,562	5,696	45,549	10,433	621
Guarantees received by the Group	2,825,002	-	-	-	-	-
Credit risk provisions, individual and collective impairment allowances	-	-	24	5	-	8

*Includes loans, advances and guarantees as at 31 December 2016 of EUR 2,682thsd extended to the Management Board (31 Dec. 2015: EUR 2,567thsd) and of EUR 86thsd extended to the Supervisory Board (31 Dec. 2015: EUR 71thsd), all concluded on arm's length terms.

During the period under review, EUR 13thsd (2015: EUR 1thsd) was recognised as expenses in respect of bad or doubtful debts due from related parties.

The transfer prices between the HYPO NOE Group and related parties were arm's length prices. 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 an 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 holdings, the Lower Austrian state government exercises 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 25 and 18 IAS 24.

Relationships with non-consolidated subsidiaries and associates (>20%)

The Chairman of the Management Board, Peter Harold, is deputy chairman of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

A member of the Supervisory Board is a member of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

Wolfgang Viehauser, a member of the Management Board, is a member of the supervisory board of VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H.

Relationships with entities accounted for using the equity method

Niederösterreichische Vorsorgekasse AG

The Chairman of the Management Board, Peter Harold, was a member of (until 31 December 2016) and is now (since 1 January 2017) chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

Management Board member Nikolai de Arnoldi was chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten, until 31 December 2016.

One member of the Supervisory Board is deputy chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

A member of key management is a member of the management board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft and its subsidiaries:

Members of key management are members of the supervisory board of EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, St. Pölten: one as chairman, one as deputy chairman, and others as members.

Members of key management are members of the supervisory boards of Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H (all domiciled in St. Pölten), including in the position of deputy chairman.

NOE Immobilien Development AG

Management Board Chairman Peter Harold was deputy chairman of the supervisory board of NOE Immobilien Development AG, St. Pölten, until 25 January 2017; since then he has been a supervisory board member.

Management Board member Nikolai de Arnoldi was chairman of the supervisory board of NOE Immobilien Development AG, St. Pölten, until 30 December 2016.

A member of key management was a member of the management board of NOE Immobilien Development AG, St. Pölten, until 30 December 2016.

A member of key management was appointed to the supervisory board of NOE Immobilien Development AG, St. Pölten, on 30 December 2016, and was appointed deputy chairman of the supervisory board on 25 January 2017.

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.

Relationships with subsidiaries of the parent companies and companies owned by the State of Lower Austria

A member of the Supervisory Board is a member of the supervisory board of Land Niederösterreich Finanz- und Beteiligungsmanagement GmbH.

Key management in the HYPO NOE Group comprises "identified staff".

8.6 RISK MANAGEMENT

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

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

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

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

Risk management system

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

The Group's organisational structure provides for a clear separation of front and back office functions (in accordance with the four-eye principle) at every level up to the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast an independent vote that confers final approval. The internal control regulations require the unanimous approval of the front and back office functions for all business decisions that would alter the risk profile. There is also a structured process for the approval of exposures requiring resolutions of the Group's Supervisory Board.

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

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

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 regulated and authorised in the Group's risk documentation. The Group in principle 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 the Group Strategic Risk Management Department, and encompasses the identification, measurement, aggregation and analysis of all the risks assumed.

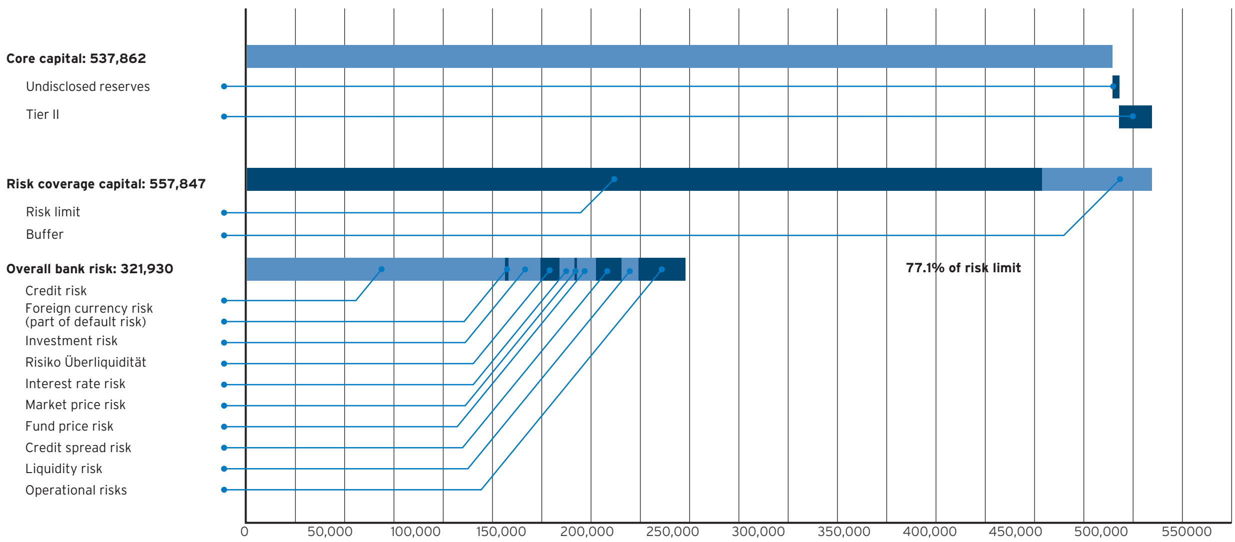
The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. The minimum capital requirement is calculated using the standardised approach (Pillar 1, Basel III regulations). All material risks (interest rate risk on the banking book, liquidity risk, credit spread risk, fund price risk, credit risk, foreign exchange risk as an element of customer default risk, and investment risk) are actively managed as part of the Group's internal risk management process (Pillar 2, internal capital adequacy assessment process [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. Economic capital management control provides creditor protection against the dangers of customer liquidation. Risks are evaluated at a high confidence level (99.9% with a holding period of one year) and compared with the risk coverage capital available in the event of liquidation.
2. Going concern management control is designed to ensure that the Bank survives as a going concern. In this case, risks are evaluated at a lower confidence level (95% with a holding period of one year) and compared with the realisable coverage capital available without endangering survival.

The HYPO NOE Group's risks and risk limits (including buffers) for the purposes of economic capital management as at 31 December 2016 are shown below.

As at 31 December 2016 the Group utilised 64.1% of the aggregate risk limit (including an adequate buffer), which was markedly lower than at 31 December 2015 (77.1%).



Capital management of internal risk coverage capital

Aggregate banking risk management for the consolidated Group for the purposes of the CRR uses IFRS accounting principles in the calculation of own funds. Satisfying the capital requirements is also an essential factor in the process of ensuring the Bank's survival as a going concern. The figures from the Common Reporting Framework (COREP) for own funds are thus taken over as potential economic risk coverage capital. Hidden economic reserves and potential liabilities from securities and investments are also included in the risk coverage aggregates. Changes in the total result both from the volatility of hidden reserves and potential liabilities and from decisions taken by the Annual General Meeting with respect to distributions, allocations to reserves and any capital increases.

The principal components of the HYPO NOE Group's potential economic risk coverage capital are as follows:
- Tier 1 capital
- Hidden economic reserves and potential liabilities from securities and investments

For moderate stress situations and to cover unquantified risks such as concentration, reputation, legal, country, settlement and other risks, the Group sets aside a general buffer of 10% of the risk coverage capital, which is not split between the individual, quantified risk categories. This means that 90% of the risk coverage capital is available for capital allocation. The more sophisticated and accurate risk measurement processes can be, the smaller the capital buffer. In addition, appropriate Tier 2 capital is available to cover specific, defined stress situations.

The following components are currently not included in the Group's economic coverage capital:
- Subordinated and supplementary capital (except for certain defined stress situations)
- Interim profits and losses for the current financial year

The exclusion of subordinated and supplementary capital from risk coverage capital serves to protect the Group's creditors: in the event of liquidation, the interests of subordinated creditors are protected, which represents prudent banking practice.

Restructuring plan

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

In July 2016 the Financial Market Authority (FMA) issued a notice revoking simplified requirements for the preparation of the Group's restructuring plan. Preparation is a legal requirement and the plan must be regularly updated. As a result of the notice, a predefined, more comprehensive set of early warning and recovery indicators must be implemented, tested using three stress scenarios and monitored as part of the Group's ongoing operations. The HYPO NOE Group conformed to these requirements by submitting an adapted restructuring plan by 31 December 2016. The changes in restructuring indicators are now an essential aspect of reports by the relevant management bodies.

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

The HYPO NOE Group has defined a comprehensive catalogue of actions that can be taken to secure or restore financial stability in the event of a severe crisis. These options are intended to make it possible to deal with market-wide stress, idiosyncratic stress and combined stress scenarios.

To provide a basis for selecting suitable courses of action in a situation where there is an actual threat, detailed impact and implementation analyses have been carried out for each option. In addition to identifying the internal and external effects of implementation, and where applicable obstacles to implementation, the analyses included a general evaluation of applicability and the prospects of successful results in certain crisis situations. The time required for implementation was also assessed.

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

Bank-wide stress testing

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

Basel III/IV

While regular, ongoing reporting improvements to meet revised reporting standards have now become routine, preparations for implementing and analysing the effects of future measures (currently known as Basel IV) are also under way. Analysis shows that the revisions made by the Basel Committee on Banking Supervision (BCBS) to rules for all significant types of risk present a major challenge for banks. The objective here is not only to ensure regulatory compliance, but also to evaluate the effects on all areas of the Bank, so as to be able to initiate any necessary corrective measures in areas such as planning and business strategy in good time.

Supervisory Review and Evaluation Process (SREP)

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

In phase 2, the data were evaluated using the information collected on the various types of risk and an expert opinion on risk management, with a view to automating the assessment of risk levels. HYPO NOE Gruppe Bank AG expects the FMA to issue a notice determining the SREP ratio in 2017; this notice will set out the new minimum capital requirements in Pillar II. The procedure used to date suggests that the Bank's capitalisation is sufficient to meet the new requirement.

Risk management systems

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

As part of the merger planned in 2017, methodologies will be harmonised, risk reporting unified and limit management systems and risk documentation adapted.

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. There is also investment risk, customer foreign exchange risk, endowment loan risk and country risk, for all of which the corresponding limits are monitored.

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

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

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

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

HYPO NOE Group master scale		Corresponding external ratings	
Grade	**Rating grade**	**Moody's**	**S&P**
Investment	1A - 1E	Aaa - Aa3	AAA - AA-
	2A - 2E	A1 - Baa3	A+ - BBB-
	3A - 3E	Ba1 - B1	BB+ - B+
	4A - 4B	B2 - B3	B
Non-investment	4C - 4E	Caa1 - C	B- - C
	5A - 5E	D	D

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

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

Credit risk exposures

The following carrying values most closely represent the maximum default exposures. The credit risks under contingent liabilities include unutilised credit facilities. The credit risk exposures consist of the totals of the following items from the statement of financial position (net of risk provisions):

	31 Dec. 2016	31 Dec. 2015	Change
Cash and balances at central banks	164,587	68,986	95,601
Loans and advances to banks	998,347	922,091	76,256
Loans and advances to customers	10,854,932	11,557,287	-702,355
Risk provisions	*-97,462*	*-100,423*	*2,961*
Assets held for trading	555,293	586,811	-31,518
Positive fair value of hedges (hedge accounting)	483,215	509,458	-26,243
Available-for-sale financial assets	1,967,148	2,104,338	-137,190
Financial assets designated at fair value through profit or loss	20,340	4,118	16,222
Investments accounted for using the equity method	29,922	20,937	8,985
Investment property	54,117	68,704	-14,587
Contingent liabilities			
Acceptances and endorsements	109	109	0
Liabilities arising from guarantees and provision of collateral	114,884	119,657	-4,773
Credit risk	1,235,099	1,355,257	-120,158
Total	**16,380,531**	**17,217,330**	**-836,799**

Credit risk analysis

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

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

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

In addition, the operational credit risk management unit is responsible for monitoring early warning indicators (principally generated by Credit Services) in order to identify potential problem customers as early as possible, so as to be able to initiate countermeasures in good time. The appearance of certain early warning indicators (payment arrears, warnings from the rating system, deterioration in the quality of information provided, etc.) means that the loan is designated a watch loan, with intensified customer service and monitoring. As at 31 December 2016 the volume of designated watch loans stood at EUR 215m.

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

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

All customers on watch-loan status are assessed at least quarterly by the Problem Loans Committee, and decisions are taken with regard to strategy.

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

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

The HYPO NOE Group applies rigorous standards as to what constitutes default, which are defined in internal guidelines (e.g. the Problem Loans Guideline) and in work instructions based on the guidelines. All customers meeting at least one of the following criteria are immediately allocated to a default rating class:

- Substantial loan more than 90 days overdue (regulatory definition)
- 30 days in arrears when subject to a forbearance arrangement
- Recognition of an individual impairment allowance
- Credit rating-related restructuring
- New forbearance arrangement required
- Insolvency, composition or bankruptcy
- Loan write-downs or write-offs

Country analysis

Country risks (transfer/conversion risk) are operational banking risks that arise in respect of cross-border lending as a result of restrictions imposed by a foreign government or the inability of a country to make payments. Inability to pay occurs when economic developments in a country make repayment or interest payments impossible. Country risk is mitigated by means of country limits. The defined country limit applies to all business conducted with counterparties in the respective country.

The situation on the capital markets remains tense. Among other factors, this is due to the ongoing crisis in public finances in Europe, the uncertainty following the Brexit vote in the UK and the unresolved problem of non-performing loans, which has persisted for years and indicates a need for direct recapitalisation of Italy's banks.

As a result the Bank is continuing to closely watch developments in Croatia, Cyprus, Greece, Hungary, Ireland, Italy, Spain and the UK. The Group's exposures in these countries are closely monitored. Exposures in the UK were reduced in the course of 2016.

The analysis by region – Austria, Central and Eastern Europe (CEE) and rest of the world (ROW) – is shown in the detailed tables in notes 6.3 Loans and advances to banks and 6.4 Loans and advances to customers.

Risk provisions

Individual and collective impairment allowances and general provisions are recognised for identifiable lending risks. The methods used for individual items are described in Note 3.12 Risk provisions. The analysis of risk provisions and provisions broken down by customer, region and term is shown in notes 6.5 Risk provisions and credit risk provisions, 6.5.2 Risk provisions by regions and 6.5.1 Risk provisions and credit provisions by customer groups.

Forbearance

Forborne exposures are loans for which concessions have been made to debtors who are in danger of being unable to fulfil their payment obligations on account of financial difficulties. Forborne exposures are those that satisfy both of the following conditions:

- Amendment of the agreement or refinancing results in concessions to a debtor
- Payment difficulties exist

Forbearance concessions may be granted on loans in performing rating grades (1A to 4E) and in non-performing grades (5A-5E). A debtor continues to be rated as performing provided the forbearance concessions do not result in re-classification as non-performing and the loan was not non-performing at the time of the concessions. Forbearance exists when for example:

- The amended agreement was already non-performing, or would have become so even without the amendment
- The amendment results in a write-down of the receivable in whole or in part
- The Bank agrees to an embedded forbearance clause, where the loan is non-performing or threatens to become so

For forbearance status to be cancelled, all of the following conditions must be satisfied:

- Analysis of the debtor's financial position supports the assessment that the debtor can meet their financial liabilities
- The loan is classified as performing
- The probation period of at least two years has been completed
- The debtor has materially fulfilled their payment obligations regularly over at least half of the probation period
- None of the debtor's exposures during and at the end of the probation period are overdue by more than 30 days

The HYPO NOE Group has applied the regulations and definitions of the European Banking Association's (EBA) Implementing Technical Standard on forbearance.

The principal forbearance measures in 2016 consisted of reschedulings, term extensions and waivers of contractual rights.

Forborne exposures not yet classified as non-performing are subject to a regular review process and are also monitored in the early warning and event system. In addition, such business is more closely monitored where accounts are more than 30 days in arrears.

These monitoring measures ensure that forborne exposures are classified as non-performing as soon as:

- The desired object of forbearance (renewed compliance with terms and conditions) is not achieved or can no longer be expected to be achieved
- The customer is more than 30 days in arrears
- An additional forbearance measure is required during the probation period
- The customer meets another of the defined criteria for non-performance

The exposure is also classified as non-performing if an impairment in the meaning of IAS 39 is identified in the course of the regular review process. An individual impairment allowance for the expected default is recognised under risk provisions in profit or loss.

Independently of the impairment test, an assessment must be made as to whether a financial instrument must be derecognised as a result of modifications to the contract. Financial assets are derecognised if the terms of the contract have changed to the extent that the modified financial instrument is substantially different from the instrument before the change (e.g. change of currency, change of debtor/counterparty), or if the newly calculated present value is significantly different to the present value before the terms of contract were modified. In this case, the financial instrument recognised up to that point must be derecognised and a new financial instrument recognised. The difference between the value of the significantly modified financial instrument and the existing carrying amount is recognised in profit or loss and subsequently reversed over the remaining term of the new instrument. In the course of assessing whether derecognition is necessary, there were no cases where changes exceeded the threshold for significance, with the result that no derecognitions were carried out in 2016 (as in 2015).

Where forborne exposures are already classified as non-performing, they are monitored on an ongoing basis as part of the strategy for restructuring cases.

As a general rule, collective impairment allowances are recognised for all forborne exposures not yet classified as non-performing, based on their current risk ratings. Individual impairment allowances for the expected defaults are recognised for non-performing forborne exposures.

Details of forborne exposures are shown in Note 6.5.4 Forborne exposures.

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 that potentially entail significant risks. In addition, relationship managers are required to prepare comprehensive 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. Such facilities are principally requested for sovereigns and Austrian and international banks with good external ratings.

The Group Strategic Risk Management Department is responsible for monitoring credit risk at portfolio level. Management is kept up to date with changes in credit risks by means of monthly credit risk reports and regular or case-by-case reports on risk-related issues (transfer of accounts to the Collections Department, changes in overdrawn balances, etc.). Management is comprehensively briefed on the Group's risk situation, including in-depth analysis of selected issues, at meetings of the Risk Management Committee (RICO).

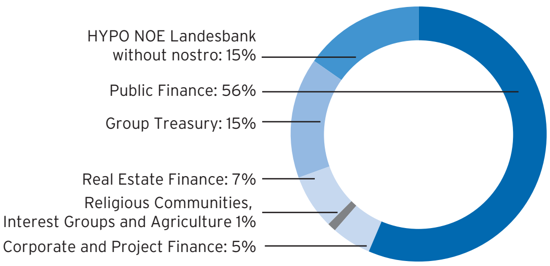
Risk concentration

Risk concentrations in the HYPO NOE Group are identified and monitored using country and industry limits, and for securities, derivatives and money market activities. There is also a limit for customers associated with the Group. The concentration in the public finance segment reflects the HYPO NOE Group's strategic focus on Austria, and Lower Austria in particular. The public finance portfolio is essentially granular; the largest exposure is represented by financing for the State of Lower Austria, and the portfolio mainly comprises loans to sovereigns, state governments and local authorities, with finance for social infrastructure and for – largely secured – subsidised home loans playing the most prominent role. See also Note 6.4 Loans and advances to customers.

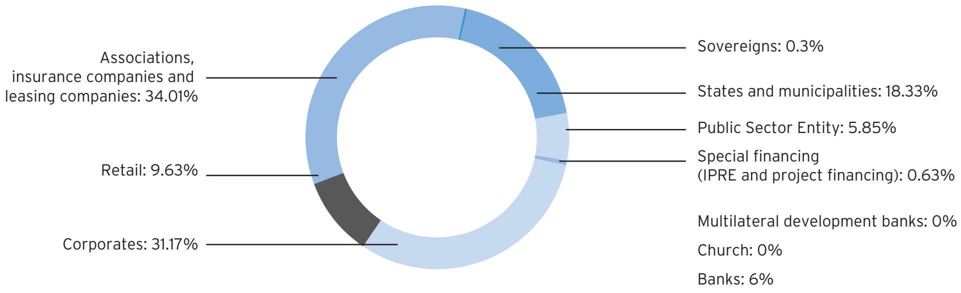
Credit risk management

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

	Exposure (EUR '000)[1]	
Control unit	**31 Dec. 2016**	**31 Dec. 2015**
Corporate & Structured Finance	8,118,050	8,669,841
Group Religious Communities, Special Interest Groups and Agriculture	755,023	886,216
Real Estate Finance	161,460	143,339
Group Treasury	1,014,843	1,078,725
HYPO NOE Landesbank (excl. nostro)	2,151,399	2,292,930
Total	2,229,005	2,290,576
Summe	**14,429,780**	**15,361,627**

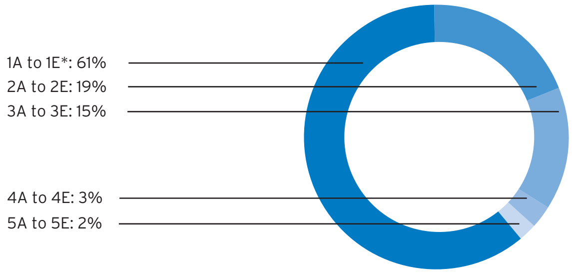


Public Finance's business is broken down into segments as follows:



Exposures are also classified by credit ratings, as follows:

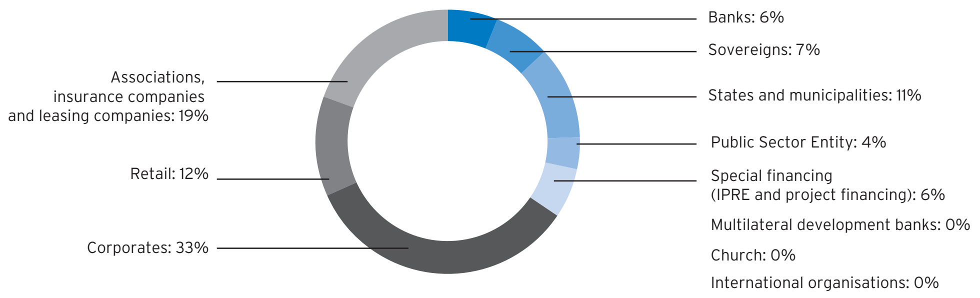
	Exposure (EUR '000)[1]	
Rating category	**31 Dec. 2016**	**31 Dec. 2015**
2A-2E	8,833,835	9,084,973
3A-3E	2,744,243	3,006,861
4A-4E	2,102,131	2,326,263
5A-5E	493,564	518,214
Total	256,007	425,316
Summe	**14,429,780**	**15,361,627**



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

	Exposure (EUR '000)[1]	
	31 Dec. 2016	31 Dec. 2015
Banks	901,554	885,232
Sovereigns	1,025,621	935,342
State governments and local authorities	1,632,072	1,818,669
Multilateral development banks	24,388	24,332
International organisations	56,194	56,324
Public sector entities	545,898	650,669
Special purpose finance (IPRE and project finance)	882,590	606,274
Corporates	4,792,693	5,722,363
Retail customers	1,742,946	1,811,877
Religious communities	37,734	26,856
Associations, insurance companies and leasing companies	2,788,092	2,823,690
Total	**14,429,780**	**15,361,627**

1)The exposure volume is the exposure plus 50% of the unused agreed credit facility. The securities are recognised at market value.



Credit risk mitigation

Collaterals and the borrower's creditworthiness (expressed as a risk weighting or probability of default) are the decisive factors in assessing credit risk, and therefore also provide the basis for the regulatory capital required. Before credit risk mitigation measures can be applied, the minimum requirements specified in the Group collateral manual must be observed. These refer to the type of collateral as well as internal processes.

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.

All permissible forms of collateral in the HYPO NOE Group are shown in the collateral list. 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, which are fully secured by a guarantee from the State of Lower Austria. The credit risk on these exposures is therefore low.

Credit risk situation in 2016

CHF loans with customer CHF foreign exchange risk

The amounts of loans with customer CHF foreign exchange risk in thousands of euros and their rating grades are as follows:

	31 Dec. 2016	31 Dec. 2015
Investment grade	824,675	897,936
Non-investment grade	214,706	253,231
Default	16,561	35,523
Unrated	0	94
Total	**1,055,942**	**1,186,784**

In the investment grade category, there is a significant concentration of lending to a leasing company with public sector business. The non-investment grade category consists predominantly of private housing financing.

Heta Asset Resolution AG

The HYPO NOE Group accepted Tender Offer II, opting for the swap offer and exchanging its EUR 225m in Heta Asset Resolution AG (Heta) debt instruments (nostro portfolio) for zero-coupon bonds issued by the Carinthian Compensation Payment Fund.

Under the terms of Tender Offer II, payable Heta receivables of EUR 100m redeemed by Pfandbriefbank (Österreich) AG (PBÖ) as a result of the stabilisation agreement with PBÖ were additionally registered and exchanged for Carinthian Compensation Payment Fund zero-coupon bonds. Heta receivables of EUR 55m to be assumed by the HYPO NOE Group in accordance with the stabilisation agreement with PBÖ, but not yet payable, were also registered and exchanged for zero-coupon bonds, which were sold in December 2016. The Bank had a liability of EUR 4.6m to PBÖ as at 31 December 2016, which covers the difference between the Heta receivables and the proceeds from selling the bonds. The Heta receivables not yet payable will be accounted for as at their due dates.

This means that HYPO NOE Group no longer holds any Heta debt instruments. Legal action taken in this matter was suspended and the lawsuits were withdrawn. The Group disposed of all Carinthian Compensation Payment Fund zero-coupon bonds in December 2016, meaning there is no longer any risk associated with Heta.

Pfandbriefbank (Österreich) AG

Liability for the obligations of PBÖ 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.

In accordance with the FMA notice of 1 March 2015, Heta is not permitted to repay amounts owing to Pfandbriefbank. However, PBÖ must redeem debt instruments issued to third parties on behalf of Heta. If PBÖ 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 PBÖ, and creditors would be entitled to demand repayment directly from any member institution or guarantor.

As part of an agreement with the member institutions and the State of Carinthia, the Management Board of HYPO NOE Gruppe Bank AG has undertaken to provide financing for one-eighth of the EUR 1.2bn of debt instruments issued on behalf of Heta, i.e. about EUR 155m. This amount includes the share of the State of Lower Austria and that of HYPO NOE Gruppe Bank AG, of which around EUR 109m in respect of instruments repayable by 31 December 2016 has already been assumed. As a result of HYPO NOE Gruppe Bank AG's disposal of the outstanding receivables that were already payable, which were exchanged for Carinthian Compensation Payment Fund bonds in December 2016, the total loss relating to the share of debt assumed by the State of Lower Austria and the Bank amounted to EUR 15.1m (one eighth of the total Heta receivables). In February 2017 the State of Lower Austria met all of its payment obligations arising from Heta receivables that were already payable.

In a unanimous resolution of the Lower Austrian parliament on 19 March 2015 and at a meeting of the Lower Austrian government on 24 March 2015, the State of Lower Austria agreed to guarantee the obligations of HYPO NOE Gruppe Bank AG, in fulfilment of its joint and several liability pursuant to the Pfandbriefstelle Act. The guarantee has been recognised by the Group as a financial guarantee in the meaning of paragraph 9 IAS 39, so that in 2015 no recognition of a risk provision was necessary. In return, HYPO NOE Gruppe Bank AG undertook to pay an appropriate consideration (less the set-off of refinancing costs incurred) as well as full compensation for drawdowns in the form of a debt warranty contingent on the Bank's future profits. The value of the debtor warrant was EUR 7.6m as at 31 December 2016. This amount was recognised as the HYPO NOE Group's total fixed share of the loss. With regard to the agreement, there is a residual risk that other member institutions or guarantors may not fulfil their obligations under the Pfandbriefstelle Act. In such an event, new agreements might have to be concluded.

In connection with the guarantee provided by the State of Lower Austria for the value of Heta debt held by PBÖ, HYPO NOE Gruppe Bank AG has indemnified HYPO NOE Landesbank AG, in that an agreement has been concluded whereby if impairments are necessary in relation to financing the one-eighth share of total Heta receivables (see above), HYPO NOE Landesbank AG may be called upon as a part of the same entity in proportion to its net assets as specified in the spin-off agreement of 2 May 2007.

Other

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

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

The credit portfolio shows no notable concentrations of risk from a Group perspective, with the exception of the loans mentioned above. Public sector financing in Lower Austria accounts for the bulk of business activities.

Group Strategic Risk Management regularly checks the non-performing asset (NPA) ratios and the 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 2016, the HYPO NOE Group's NPA ratio was 2.01% (31 Dec. 2015: 4.47%). The NPA coverage is defined as risk provisions (individual and collective impairment allowances, and credit-related provisions) divided by the total exposure on default customers (5A-5E rated). Group coverage as at 31 December 2016 was 47.6% (31 Dec. 2015: 31.7%).

The non-performing loan (NPL) ratio, defined as total exposure on default customers divided by total loans and advances to customers, is also calculated at Group level. As at 31 December 2016 the NPL ratio was 1.94% (31 Dec. 2015: 2.85%).

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 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.

The further improvement of credit risk management includes improving organisational processes for the management of risk (watch list, continuous evaluation of provisions, forbearance), tighter monitoring, and active portfolio management (risk transfer and risk concentration, and the structure and concentration of securities).

Market risk

General

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

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

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

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

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

The overriding goal of the Group's market risk management activities is guaranteeing adequate capital coverage of the market risks incurred at all times, and ensuring that individual risk positions are transparent and are appropriately monitored and managed. Based on this goal, the Group has defined the following principal objectives for market risk management:

- Identifying and evaluating all of the Bank's key market risks
- Taking into account key market risks in the calculation of the Bank's total risk-bearing capacity and in Bank-specific stress testing scenarios
- Optimising the allocation of risk capital and market risk positions with respect to risk and earnings expectations
- Taking earnings expectations and risk tolerance into consideration in planning processes
- Complying with statutory requirements

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

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

Interest rate risk in the banking book

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

As a priority, the HYPO NOE Group monitors and manages interest rate risks in respect of net interest income and sub-portfolios relevant to IFRS earnings and equity, since these are primary indicators of performance in the accounts for a given period. The present value of the interest rate risk on the entire banking book is controlled to ensure adherence to the Bank's total risk-bearing capacity and compliance with the limit requirements set out in the OeNB interest rate risk statistics. The Bank's equity is managed separately, using an equity book.

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

Interest rate risk management

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

The management of intra-year interest rate risk positions is the responsibility of the Group Treasury & ALM Department. Fixed and non-linear interest rate risks are by and large eliminated by the use of hedges. Strategic long-term positions in the banking book that are sensitive to interest rates are discussed by the Asset Liability Management Committee and –

following approval by the Management Board – managed by the Group Treasury & ALM Department. Equity is invested and reported in the form of a rolling fixed income portfolio.

Banking book

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

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

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

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

Individual portfolios

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

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

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

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

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

Interest rate risk in 2016

Based on the OeNB statistics, interest rate risk was low relative to the regulatory limit (20% of eligible capital). The decline in the level of risk was mainly due to a reduction in open interest rate risk positions. The following table shows the results of the OeNB regulatory interest rate risk statistics as at 31 December 2016 and 31 December 2015:

OeNB regulatory interest rate risk statistics	31 Dec. 2016	31 Dec. 2015
OeNB interest rate risk indicator	1.80%	9.24%

The following tables show the interest rate risk positions taken by the HYPO NOE Group as at 31 December 2016 (above) and 31 December 2015 (below):

Interest rate risk positions (assets-liabilities) 31 Dec. 2016, EUR '000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	3,418,566	-943,522	2,475,045
1-3 months	796,801	-2,089,363	-1,292,563
3-6 months	96,131	-862,213	-766,082
6 months-1 year	-1,575,408	1,273,943	-301,464
1-2 years	-638,789	455,811	-182,978
2-3 years	-425,656	576,869	151,213
3-4 years	-546,468	606,255	59,787
4-5 years	-404,892	480,898	76,005
5-7 years	-286,980	432,147	145,167
7-10 years	126,127	28,430	154,557
10-15 years	-285,528	202,661	-82,866
15-20 years	1,569	-41,434	-39,865
Over 20 years	150,629	-153,094	-2,466

Interest rate risk positions (assets-liabilities) 31 Dec. 2015 (EUR '000)	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	2,155,948	-852,628	1,303,319
1-3 months	-18,308	-2,344,850	-2,363,158
3-6 months	1,521,068	-844,510	676,558
6 months-1 year	-241,869	556,719	314,850
1-2 years	-1,427,257	949,304	-477,953
2-3 years	-126,223	441,458	315,235
3-4 years	-241,423	572,251	330,827
4-5 years	-492,102	601,309	109,207
5-7 years	-778,002	943,876	165,874
7-10 years	243,598	51,648	295,247
10-15 years	-240,833	107,727	-133,106
15-20 years	16,992	-56,059	-39,067
Over 20 years	178,587	-182,043	-3,456

As at 31 December 2016 risk utilisation was 18.2% of the total limit of EUR 43m (2015: 57.4% of the total limit of EUR 43m). The table below shows the results of the various interest rate scenarios for the HYPO NOE Group, and how they are reflected in the internal limits, as at 31 December 2016 and 31 December 2015:

Interest rate scenario, total banking book, EUR '000	31 Dec. 2016 Change in present value	31 Dec. 2016 Negative change in present value	31 Dec. 2015 Change in present value	31 Dec. 2015 Negative change in present value
No shift				
Shift +100 bp	7,825	0	-25,100	-25,100
Shift -100 bp	-7,825	-7,825	26,011	
Shift +200 bp*	15,649	0	-47,569	-47,569
Shift -200 bp	-15,649	-15,649	54,500	
Twist CM +100 bp	5,618	0	-19,618	-19,618
Twist CM -100 bp	-5,618	-5,618	19,806	
Twist MM +100 bp	5,367	0	-9,919	-9,919
Twist MM -100 bp	-5,367	-5,367	7,006	
Twist 1d +100 bp 30y -250 bp	-4,648	-4,648	21,114	
Twist 1d -100 bp 30y +250 bp	4,648	0	-21,121	-21,121
Internal risk**	0	-7,821	0	-24,665
Warning level (95% of limit)	**-40,850**		**-40,850**	
Limit/utilisation (%)	**-43,000**	**18,19%**	**-43,000**	**57,36%**

* Regulatory scenario

**Average of five worst deteriorations in net present value

The following factors need to be borne in mind when using sensitivity analyses:

- 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 not modelled by them.

In the period under review, a modified duration approach was adopted for the internal model for the present value of interest rate risk, replacing the cash-flow-based approach. As a result of the change, the unwanted effects of the lending business margin were eliminated from the calculation. Adjustments were also made in deposit modelling. The overall effect of these changes was to reduce risk. The remainder of the decline in risk was attributable to the reduction in open interest rate risk positions.

The following tables show the results of the internal interest sensitivity analysis for the Group's individual sub-portfolios as at 31 December 2016 (above) and 31 December 2015 (below):

Internal sub-portfolios for interest rate risk monitoring as at 31 Dec. 2016, EUR '000	Shift +1 bp	Limit	Utilisation (%)
Nostro portfolio			
AFS reserve	-159	-375	42.37%
IFRS earnings portfolio (linear)	-18	-50	35.00%
IFRS earnings portfolio (non-linear)	-3	-25	10.80%

Internal sub-portfolios for interest rate risk monitoring as at 31 Dec. 2015, EUR '000	Shift +1 bp	Limit	Utilisation (%)
Nostro portfolio			
AFS reserve	-187	-375	49.81%
IFRS earnings portfolio (linear)	-10	-50	19.61%
IFRS earnings portfolio (non-linear)	-7	-25	26.67%

In 2016 the Group retained an open CMS derivative position following the sale in 2015 of the underlying, which had a maturity date of 2017. The risk is included in the non-linear IFRS earnings portfolio on the basis of a 1 bp twist risk.

There are also two CMS positions (maturing in 2017) and one USD/EUR FX basis spread risk position. Following the termination of the on-balance-sheet hedge, the changes in the present values of these positions were recognised in the IFRS statement of financial position without an offsetting position. The risks associated with these positions are also regularly monitored on the basis of a 1 bp shift (1 bp twist in the yield curve for CMS positions and a 1 bp change in the USD/EUR FX basis spread). The following table shows the results of the internal interest sensitivity analysis for these positions as at 31 December 2016 and 31 December 2015:

1 bp risk for derivative positions affecting the IFRS earnings portfolio, EUR '000	31 Dec. 2016	31 Dec. 2015
CMS	-3	-20
FX basis spread risk, USD/EUR	-18	-25

Credit spread risk

Credit spread risks are particularly important in connection with the Group's own investments, and these risks are monitored and reported on in the monthly risk management report. The credit spread risk is calculated for the whole nostro portfolio in the banking book using a value-at-risk (VAR) approach based on historical credit spread scenarios, taking into account correlations between historical credit spreads (by using the variance/covariance approach). Time series (monthly credit spread data for a maximum of five years prior to the reporting date) feed into the analysis and are given an equal weighting (decay factor of 1). This indicator measures the potential loss in value from widening spreads that would be realised by selling the whole securities portfolio on a gone concern basis. The following table shows the results of the VAR analysis of credit spreads for the HYPO NOE Group as at 31 December 2016 and 31 December 2015, assuming a holding period of one year and with a confidence level of 99.9%:

Credit spreads, VAR (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2016	31 Dec. 2015
Nostro portfolio, total	-13,039	-28,553

The reduction in 2016 was mainly attributable to declining volumes and falling credit spread volatilities.

There were no significant changes in the methods used to measure and monitor credit spread risk during the reporting period.

Fund price risk

Volume limits (2016: EUR 50m), earnings limits (2016: EUR 5m) and corresponding escalation processes were set for fund investments. Fund price risk is also included in the calculation of the Bank's total risk-bearing capacity, using a VAR approach based on price changes over time. To determine VAR, potential future losses are calculated on the basis of changes in market prices over the two years prior to the measurement date. Time series feed into the analysis and are given an equal weighting (decay factor of 1). The square root of time formula is used to scale VAR to a holding period of one year. The following table shows the results of the VAR analysis of fund investments for the HYPO NOE Group as at 31 December 2016 and 31 December 2015, assuming a holding period of one year and with a confidence level of 99.9%:

VAR, market prices (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2016	31 Dec. 2015
Fund price risk exposure, total	-9,910	n.a.

There were no material investments in funds in 2015.

The fund selection process and ongoing strategic monitoring are the responsibility of the Group Treasury & ALM Department. The Group Strategic Risk Management Department is responsible for monitoring risk limits.

Foreign exchange risk

The HYPO NOE Group's conservative risk policies are supported by strict internal limits on open currency positions. The use of refinancing in the same currency and of FX derivatives means that foreign exchange risks for the Group are effectively eliminated. In accordance with Article 92(3)(c)(i) CRR in conjunction with Article 351 et seqq CRR, as at 31 December 2016, and throughout 2016, the Group was not subject to the own funds requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign exchange positions as a whole is below this figure.

The residual foreign exchange risk for all open currency positions is regularly measured and monitored using a VAR approach based on historical foreign currency fluctuations. Correlations between the various currencies are taken into consideration (by using a variance/covariance approach). Weighted time series (daily exchange rate data for approximately three years prior to the reporting date) feed into the analysis (decay factor of 0.94). The following table shows the results of the VAR analysis for the HYPO NOE Group's currency positions as at 31 December 2016 and 31 December 2015, assuming a holding period of one year and with a confidence level of 99.9%:

Currency positions, VAR (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2016	31 Dec. 2015
Currency risk exposure, total	-98	-151

There were no significant changes in the methods used to measure and monitor foreign exchange risk during the reporting period.

Options risk

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

As of 31 December 2016 the Group had one interest rate floor option, which was concluded as an economic hedge against interest rate risk arising from a continued decline in interest rates. The time to maturity was low, at less than one year. As a result of this long position, economic losses are limited to the purchase price. However, regular measurement and recognition at fair value may lead to larger effects in certain periods.

Trading book risk

The Group does not engage in any business that requires it to maintain a large trading book as defined by the Capital Requirements Regulation. It maintains a small trading book in accordance with Article 94 CRR, and the volume of business is also limited in line with the provisions of that Article. Sensitivity limits and maximum loss limits (2016: EUR 650,000; 2015: EUR 650,000), including an early warning indicator (2016: EUR 300,000; 2015: EUR 300,000) that reduces the sensitivity limit by 50%, have been set. Daily monitoring is the responsibility of the Strategic Risk Management Department.

Basis risk in hedge accounting

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

The key risks for the Bank are:
- Basis risks arising from differing discount curves (CSA swaps with OIS discounting vs. underlying with IBOR discounting)
- FX basis risks

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

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

CVA/DVA risk

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

On-balance-sheet market risk: sensitivity analysis

The following tables show a sensitivity analysis that illustrates the impacts of changes in key market parameters affecting the Group's profit and equity during the next financial year; these changes were considered possible as at the end of the reporting period. The effects on net interest income and net trading income were considered when calculating profit for the year. The methods and assumptions applied are briefly explained below – the assumed potential fluctuations in the market are based on realistic and expected changes, and do not represent stress or worst-case scenarios.

Interest rate risk: The assumptions applied in the annual budget for 2016 were used to determine the sensitivity of risk to changes in interest rates. Parameters were selected and analysis performed for three interest scenarios. The Bank's forecast for interest rate developments was defined as the baseline scenario. The interest rate shifts used in the sensitivity analysis represented the difference between the baseline scenario and the scenario with the largest negative effects on net interest income. As at 31 December 2016 the scenario with rising interest rates had a negative effect on net interest income. The following table shows the interest rate shifts for each indicator as at 31 December 2016 and 31 December 2015, as applied in the analysis.

Interest rate shifts used in analysis of interest rate risk as at 31 Dec. 2016

EONIA	ECB tender	One-week term deposit	3-mth Euribor	6-mth Euribor	IRS 1yr	IRS 2yr	IRS 5yr	IRS 10yr	UDRB
0.09%	0.00%	0.09%	0.10%	0.09%	0.12%	0.13%	0.09%	0.02%	-0.05%

Interest rate shifts used in analysis of interest rate risk at 31 Dec. 2015

EONIA	ECB tender	One-week term deposit	3-mth Euribor	6-mth Euribor	IRS 1yr	IRS 2yr	IRS 5yr	IRS 10yr	UDRB
-0.10%	-0.04%	-0.10%	-0.06%	-0.06%	-0.24%	-0.34%	-0.56%	-1.05%	-0.56%

In order to ensure the consistent presentation of interest rate risk for the various risk categories concerned, these interest rate shifts served as the basis for the following sensitivity analyses:

- Calculation of the effects of variable rate positions in the entire banking book on net interest income
- Calculation of the effects of fair value positions on net trading income (including options and positions from the small trading book)
- Calculation of the effects of available-for-sale positions on equity

The figure provided by the sensitivity analysis for net interest income is the difference between net interest income in the most negative scenario simulated and in the baseline scenario.

For other interest rate risk sensitivities, the sensitivity effect of an interest rate shift 1 bp above the shift calculated for the relevant indicator in the analysis is scaled up on a linear basis, which leads to a slight overestimation.

A 10 bp change in basis spreads was used to determine the impact of current USD/EUR FX basis spread risk positions on net trading income.

Credit spread risk: In order to calculate the sensitivity of credit spread risk, the value-at-risk (VAR) model described above in the section on credit spread risk was applied, assuming a holding period of one year and a confidence level of 95% (i.e. 5% probability). All positions affecting profit for the year (fair value portfolio) or equity (available-for-sale portfolio) were included in the analysis.

Foreign exchange risk: In order to calculate the sensitivity of risk to exchange rate fluctuations, the VAR model described above in the section on foreign exchange risk was applied, assuming a holding period of one year and a confidence level of 95% (i.e. 5% probability). All relevant foreign exchange positions were included in the calculation.

Options risk: Options are only recognised at fair value and changes in valuation are reported under net trading income. Due to the short time to maturity of the existing options, volatility does not have a significant impact on the calculation of risk sensitivity, so the analysis only takes account of interest rate risk based on the defined interest rate shifts for such risks (see also the section on interest rate risk, above).

Risk arising from the small trading book: The following parameters were defined to measure the sensitivity of risk to changes in market parameters that affect the trading book: for interest rate risk, the defined interest rate shifts (see also the section on interest rate risk, above); for credit spread risk, a 50 bp increase in spreads (2015: 50 bp); and for foreign exchange risk, a 20% change in exchange rates (2015: 20%). The trading book is managed on a daily basis. Timely management combined with a limit of EUR 650,000 on year-to-date losses (including a 50% reduction in the sensitivity limit in the event of a loss of EUR 300,000 or more) places additional limits on potential losses.

CVA and DVA risk: to determine sensitivity to fluctuations in the CVA and DVA, the CVA for the unsecured derivative portfolio as at 31 December 2016 is recalculated on the basis of the interest rate at 31 December 2016 (2015: based on the Bank's expectations for interest rate changes in 2016) and an average one-notch downgrade in the internal rating, which would result in an average rise of around 26 bp (2015: 40 bp) in credit spreads. The required CVA is then compared with the figure recognised at year-end 2016.

A summary of the results of the sensitivity analysis for market risk as at 31 December 2016 and 31 December 2015 is provided in the tables below.

Effect of market risk on profit for the year: sensitivity analysis, EUR '000	31 Dec. 2016	31 Dec. 2015
Interest rate risk		
Effect of variable-rate positions on net interest income	-2,340	2,018
Effect of linear fair value positions on net trading income	33	1,029
Effect of non-linear fair value positions on net trading income	41	2,633
Effect of changes in FX basis spreads on net trading income	-180	-250
Credit spread risk		
Effect of fair value portfolio on net trading income	-	-75
Foreign exchange risk		
Effect of open currency positions on net trading income	-52	-80
Options risk		
Effect of valuation of interest rate options	-18	55
Trading book risk		
Effect of valuation of interest rate risk-bearing trading book positions	-	508
Effect of valuation of credit spread risk-bearing trading book portfolios	-135	-372
Effect of valuation of foreign exchange risk-bearing trading book portfolios	-	-551
CVA/DVA risk		
Effect of unsecured derivatives on net trading income	-4,981	-3,432

Effect of market risk arising from the available-for-sale portfolio on equity: sensitivity analysis, EUR '000	31 Dec. 2016	31 Dec. 2015
Interest rate risk	-1,494	10,472
Credit spread risk	-6,292	-12,987

There were no significant changes in the methods and measurements applied for the market risk sensitivity analysis.

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).

The following table shows a maturity analysis for the Group's non-derivative financial liabilities including existing financial guarantees, and for derivative financial liabilities and outstanding loan commitments as at 31 December 2016 and 31 December 2015. Presentation is subject to the following rules:

- Undiscounted contractual cash flows (including payments of principal and interest) are shown
- In the case of liabilities with variable cash flows, the future cash flows are calculated on the basis of forward rates
- Liabilities are reported at the earliest possible date they can be called in by the counterparty (sight deposits and savings deposits are therefore shown in the earliest maturity band, regardless of their actual maturities)
- Financial guarantees are allocated to the earliest maturity band, in line with the Bank's conservative approach
- Finance lease obligations are included at the expected time of payment
- Outstanding loan commitments are included at the earliest possible time of availment
- Liabilities arising from derivative transactions based on master agreements do not include any netting agreements
- Cash flows from interest rate derivatives are included on a net basis
- Repayments for obligations arising from foreign exchange derivatives and forwards are presented gross

Financial liabilities – maturity analysis as at 31 December 2016, EUR '000	0-1M	1-3M	3-12M	1-5Y
Fixed-term interbank deposits	20,851	20,940	204,438	3,167
Liabilities from collateral received for derivatives	95,970	0	0	0
Customer deposits	2,094,608	321,734	602,022	229,988
Unsecured own issues	67,340	351,461	2,470,688	1,236,367
Secured own issues	15,076	37,256	68,931	2,578,918
Financial guarantees	114,884	0	0	0
Finance lease obligations	16,278	33,835	159,024	374,498
Derivative liabilities	185,129	207,276	168,905	93,140
Loan commitments	1,235,099	0	0	0

Financial liabilities – maturity analysis as at 31 December 2015, EUR '000	0-1M	1-3M	3-12M	1-5Y
OeNB tender/GC Pooling repo	605,034	0	0	0
Fixed-term interbank deposits	102,035	31,332	147,471	28,444
Liabilities from collateral received for derivatives	107,630	0	0	0
Customer deposits	1,859,773	455,129	357,480	81,757
Unsecured own issues	84,198	308,746	562,591	3,755,914
Secured own issues	15,296	19,639	86,298	2,099,253
Financial guarantees	119,657	0	0	0
Finance lease obligations	17,560	38,491	164,577	568,248
Derivative liabilities	138,782	169,514	36,574	227,037
Loan commitments	1,355,257	0	0	0

The majority of derivative liabilities are collateralised with cash, or arise due to the inclusion of gross values for foreign exchange derivatives and forwards. As a result, actual net liquidity outflows will be less than the figure shown in the maturity analysis. In connection with derivatives with credit support annexes (CSAs), the general risk of remargining is taken into account in the calculation of the survival period, which is taken into consideration in the internal operational liquidity stress tests. This is based on the largest net change in the daily balance figures over the past two years, and an interest rate floor of 0% for the ten-year euro swap rate including a buffer. The worst-case liquidity outflow resulting from remargining of derivatives with CSAs for the year to 31 December 2016 and to 31 December 2015, expressed in EUR '000, is shown in the table below.

31 Dec. 2016	31 Dec. 2015
312,000	305,000

Loan commitments include unutilised credit lines and loan facilities as well as revolving credit lines (e.g. overdraft facilities and cash advances), where there is a strong likelihood that the unutilised credit lines/loans will be used within the contractually agreed period. Credit lines can be used at any time, meaning that a higher degree of uncertainty is associated with utilisation and the maturity date. Public sector customers with which close relationships exist account for a significant proportion of unused credit lines. On account of this close relationship, planned use of the credit line by the customer takes place in consultation with the Bank's relevant market units. This in turn facilitates forward planning of the Bank's refinancing requirements.

The Group's main sources of finance are secured and unsecured issues, and deposits from retail and institutional customers (including international financial institutions) and SMEs. The interbank market, OeNB tenders and GC Pooling repos are the primary means of managing liquidity.

Introduced in 2015, the stronger emphasis on customer deposits continued during the reporting period, with a view to diversifying the Group's refinancing base. Given the nature of the segment, the concentration of deposits from individual retail customers and SMEs is usually low in volume terms, so the Bank has no significant concentration risks. By contrast, customer-specific concentrations are possible with institutional customers, some of which are in a position to make substantial investments. The Bank offers tailored products to achieve a certain distribution between various longer-term maturity bands. Liquidity risk management takes account of the possibility that institutional customers will withdraw deposits on maturity using scenarios based on experience of past crises; these form parts of the internal operational liquidity stress tests used to calculate the survival period. The ten largest fixed-term deposits by institutional customers at year-end 2016 and 2015 were as follows (EUR '000):

	31 Dec. 2016	31 Dec. 2015
1	193,000	250,000
2	95,000	77,000
3	75,000	75,000
4	75,000	40,000
5	71,112	40,000
6	44,000	35,000
7	40,151	35,000
8	34,000	20,000
9	30,000	20,000
10	27,890	20,000

In spite of market instability during times of crisis, the unsecured capital market will continue to form part of the refinancing mix in the future, helping the Bank to broaden its refinancing base. The Bank has managed to complete a number of private placements despite turbulent market conditions, thanks to the extensive customer network it has built up across Europe and further afield over the past few years. That and the choice of longer maturities has helped to prevent the creation of large concentrations of risk.

The Group has a number of substantial issues guaranteed by the state of Lower Austria that mature in 2017. In recent years the Group has successfully implemented a strategy of refinancing a substantial portion of these issues. This refinancing was used to buy back state-guaranteed issues maturing in 2017 and to make short-term investments that mature in the same year, or build up liquidity reserves.

In contrast, secured capital accounts for a significant portion of the Group's total refinancing, and will continue to do so in future; it is also more stable in times of crisis. Another important advantage is that available collateral in the cover pools can be converted into assets eligible as collateral for OeNB tenders and used to provide liquidity, for instance to cope with the effects of inactive markets in a crisis.

In addition to OeNB tenders and GC Pooling, the Group makes use of the interbank market to a limited extent (for details on the relevant limit, see "Implementation of liquidity risk management", below) to manage its short-term liquidity requirements. Conditioning is used to manage the volume of liquidity. No roll-overs are included in internal operational stress scenario assumptions (meaning 100% outflow at maturity is assumed), since the interbank market is usually not accessible during a crisis. The ten largest fixed-term interbank deposits at year-end 2016 and 2015 were as follows (EUR '000):

	31 Dec. 2016	31 Dec. 2015
1	134,000	134,000
2	41,615	44,900
3	15,000	25,000
4	15,000	15,000
5	10,000	10,000
6	8,750	5,000
7	500	3,000
8	0	2,000
9	0	0
10	0	0

The HYPO NOE Group's available liquidity reserve is the primary instrument for managing and covering short-term maturities. The Group makes a distinction between high-quality liquid assets (HQLA) and other ECB or GC Pooling repoable collateral. Strategic liquidity is mainly generated by means of OeNB tenders and GC Pooling repos. The breakdown of the available liquidity reserve as at 31 December 2016 (above) and 31 December 2015 (below) was as follows:

Available liquidity reserve as at 31 Dec. 2016, EUR m	T0	1m	3m	12m
HQLA	1,160	1,160	1,139	1,002
ECB tenders or GC Pooling – other repoable collateral*	1,633	1,576	1,501	1,325

Available liquidity reserve as at 31 Dec. 2015, EUR m	T0	1m	3m	12m
HQLA	1,171	1,171	1,165	1,144
ECB tenders or GC Pooling – other repoable collateral	666	1,299	1,280	892

*In 2015 the necessary conditions were put in place to enable the use of available coverage capital in the cover pool at short notice (within seven days) to generate liquidity without needing external partners by means of OeNB tenders. In 2016, the liquidity the can be made available in this way was included in the liquidity reserve.

The analysis of the available liquidity reserve does not include collateral utilised as at the end of the reporting period. This means that once the liabilities secured with such collateral (mainly OeNB tenders and GC Pooling) have matured, there could be an increase in the portfolios included in the maturity profile.

By definition, the focus of investments made from the liquidity reserve is restricted to HQLA, OeNB tenders or GC Pooling repoable collateral. As domestic investments are given priority, there are mainly concentrations in low-risk Austrian government bonds.

If the refinancing options are not sufficient to cover financial liabilities, the Bank's emergency processes and measures are triggered. Based on the internal liquidity risk management processes, the necessary action takes place well before the occurrence of a situation that could pose a threat to the Group's continued operation.

The following information on the Group's liquidity risk management processes includes details of the individual components of the comprehensive liquidity risk management framework and how they work together. The framework takes into account all of the key aspects of liquidity risk management, including preparation and implementation of a refinancing and risk strategy adapted to the business model and the appetite for risk; use and regular monitoring of suitable methods and processes for determining, measuring, monitoring and managing liquidity risk; and implementation of effective escalation processes and contingency plans.

Liquidity risk management

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

This forms the basis for the Group's fundamental objectives for liquidity management:

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

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

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

Implementing intraday liquidity risk management processes

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

Implementation of liquidity risk management

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

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

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

The HYPO NOE Group's operational liquidity capacity is evaluated and monitored on a monthly basis in terms of the length of time the Bank is able to survive. The net cash outflows in the normal scenario and the three stress scenarios are compared with the relevant available liquidity reserve, and the length of time before the liquidity reserve is no longer sufficient to cover the net cash outflows is calculated. The shortest survival period is then used in calculating the limit utilisation. When determining the survival period in the stress scenarios, the fundamental assumption is made that 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 initially 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 markets is assumed, and access to money and capital market refinancing is also taken to be very limited. In addition, the available 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, as the Group is owned by the State of Lower Austria, may be seen as positive given that in a general crisis customers' need for security is increased.

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: 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 (or 12 weeks in the case of an early warning), the HYPO NOE Group's survival period as at 31 December 2016 was a respectable 39 weeks (31 Dec. 2015: 34 weeks). In addition to survival period, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is reported monthly and is integrated into operational liquidity management and planning processes. The LCR reported to the regulator was 190% as at 31 December 2016 (31 Dec. 2015: 123%). A regulatory limit of 80% and an internal limit of 105% are currently envisaged for 2017. Volume limits based on maturities are also in place, to control unsecured bank money market exposures. Daily monitoring and reporting is the responsibility of the Group Strategic Risk Management Department. The 30-day limit of EUR 500m, the 90-day limit of EUR 800m and the up to one year limit of EUR 1,000m were unchanged from the limits in 2015, and were observed throughout the period under review.

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

The HYPO NOE Group uses economic capital as a major metric for structural liquidity risk. Economic capital measures the maximum possible net interest loss that can be absorbed. For liquidity risk it is calculated using higher costs, because of potentially higher refinancing spreads over a year. On the basis of historical funding costs, the maximum expected increase in refinancing costs over the period of a year is calculated with a given confidence level for each major funding instrument. Actual performance is then monitored. The economic capital for a limit of EUR 12m was EUR 8.6m as at 31 December 2016 (31 Dec. 2015: EUR 7.1m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn (2015: EUR 1bn).

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

Contingency plan

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

Liquidity risk in 2016

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

The environment for banks on the Austrian capital market has improved markedly following the resolution to the Heta situation. In the covered bonds segment, a number of public issues were placed by Austrian institutions and oversubscribed. Euro-denominated senior unsecured issues are still only viable by means of private placements, although the volume of such placements has also increased. Several Austrian banks, including the HYPO NOE Group, again issued senior unsecured debt in CHF. In the second half of 2016, the Bank placed a seven-year CHF 100m issue at a very attractive level with institutional investors. The Group raised the budgeted amount of capital market funding in full in 2016, and the deposits business also continued to grow.

Throughout the period under review, the Basel III, LCR, NSFR and additional liquidity monitoring metrics (ALMM) regulatory indicators for limiting liquidity risk were calculated on the basis of the published standards and reported to the Austrian regulatory authorities. Where applicable, the minimum regulatory requirements were observed. Compliance with the statutory regulations in day-to-day operations will be underpinned by the integration of the requirements into the internal liquidity risk management and planning processes, together with the strict Group-wide procedures and operational control processes already in place.

HYPO NOE Gruppe Bank AG improves its liquidity risk management processes on an ongoing basis, principally by incorporating the results of model and parameter validations, stress tests and emergency simulations.

With regard to liquidity risk reporting (LCR, NSFR, etc.), the focus was on process-related and technical refinements in producing reports, as well as first-time reporting of ALMM.

Operational risk

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

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

- Ongoing identification and analysis of operational risk events, including introducing measures to avoid similar events in future and regular reporting to the Management Board
- Ongoing monitoring of the implementation and success of the measures, and submission of a quarterly status report to the Management Board
- Monitoring the potential future operational risk profile using key risk indicators
- Evaluating factors that could alter the risk profile, such as the introduction of new products or outsourcing
- Ongoing adaptation and improvement of existing guidelines
- Using the emergency plans that form part of the business continuity management (BCM) system to manage 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 against various risks

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

Operational risk in 2016

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

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

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

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

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

Reputational risk

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

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

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

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

Other risks

Other risks consist largely of business risks (the danger of loss as a result of a deterioration in the economic environment or in the HYPO NOE Group's business relationships), strategic risks (the danger of losses arising from decisions concerning the Group's strategic focus and business development) and risks from the HYPO cross-guarantee scheme (see Note 8.6 Risk management).

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

Legal risks

Generally, provisions are recognised for legal proceedings for which 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 criminal proceedings against current and former employees and members of management bodies of HYPO NOE Gruppe Bank AG have not yet been terminated.

Information on the provisions against legal risks arising from pending proceedings can be found in Note 6.24.1 Movements in provisions.

8.7 SUPPLEMENTARY DISCLOSURES

Joint and several liability for Pfandbriefbank (Österreich) AG issues

Under section 2(1) Pfandbriefstelle Act, as member banks of the Pfandbriefstelle der österreichischen Landes-Hypothekenbanken, HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG are jointly and severally liable, together with the other member institutions, for all the liabilities of the Pfandbriefstelle. This liability is the same for all the member banks listed in section 1(2) of the 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 31 December 2016 were EUR 1,929,509thsd (2015: EUR 3,343,912thsd). This approximately corresponds to the total liabilities of Pfandbriefstelle as at 31 December 2016. Taking into account the funds raised by Pfandbriefstelle and lent on to HYPO NOE Gruppe Bank AG, which totalled EUR 375,254thsd at 31 December 2016 (31 Dec. 2015: EUR 432,031thsd), the amount to be disclosed under section 237(8a) Austrian Business Code is EUR 1,554,255thsd (31 Dec. 2015: EUR 2,911,881thsd).

For further details see the information on Pfandbriefbank (Österreich) AG in the section on credit risk in Note 8.6 Risk management.

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 provided that their maturities do not 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 2016 state government guarantees of issues, deposits and other liabilities such as subordinated and supplementary capital were

- EUR 2,843,372thsd (2015: EUR 3,752,783thsd) for HYPO NOE Gruppe Bank AG, and
- EUR 164,478thsd (2015: EUR 202,481thsd) for HYPO NOE Landesbank AG,
- resulting in a combined total of EUR 3,007,850thsd (2015: EUR 3,955,264thsd) for both banks.

EUR '000	31 Dec. 2016	31 Dec. 2015
Securities admitted to trading (assets) no unlisted securities were held	Listed	Listed
Bonds and other fixed-income securities	794,503	1,024,621
Shares and other variable-income securities	4,077	4,074

EUR '000	31 Dec. 2016	31 Dec. 2015
Negotiable securities assigned to fixed assets		
Bonds and other fixed-income securities	814,089	1,008,420
Shares and other variable-income securities	4,077	4,074

EUR '000	31 Dec. 2016	31 Dec. 2015
Assets pledged as collateral		
Cover pool for covered bonds and public sector covered bonds (debts evidenced by certificates)	5,995,278	5,645,875
Of which covering loans	*5,841,091*	*5,463,684*
Of which securities	*152,688*	*180,691*
Of which cash	*1,500*	*1,500*
Marketable collateral (securities) delivered to the collateral custody account with the OeNB (for deposits from banks)*	166,426	416,585
Non-marketable collateral (loans) transferred to the OeNB (for deposits from banks)*	473,581	913,133
**Of which OeNB tenders*	0	*500,027*
Securities pledged to the EIB (for deposits from banks)	159,226	138,439
Collateral delivered (cash) (for derivatives)	849,693	711,640

	31 Dec. 2016	31 Dec. 2015
After-tax return on assets (ratio of profit for the year to total assets)	0.45%	0.04%

Supplementary disclosures pursuant to the Austrian Business Code

The HYPO NOE Group's rental and lease commitments amount to EUR 1,130thsd in 2017 (2016: EUR 1,719thsd) and EUR 4,417thsd in total for the 2017-2021 financial years.

Supplementary disclosures pursuant to the Austrian Banking Act

Foreign currency assets amounting to EUR 364,813thsd (2015: EUR 532,312thsd) and foreign currency liabilities amounting to EUR 1,065,797thsd (2015: EUR 1,328,156thsd) are included in the total assets of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG pursuant to the Austrian Banking Act. The figures for 2015 have been adjusted to reflect intercompany transactions.

In 2016 expenses arising from subordinated debt totalled EUR 1,682thsd (2015: 1,932thsd).

Receivables falling due within one year from bonds and other fixed-income securities amounted to EUR 342,672thsd (2015: EUR 70,809thsd), and those from bonds issued to EUR 1,740,491thsd (2015: EUR 905,552thsd).

Securities intended to be a permanent part of business operations form part of financial assets.

Analysis of assets by maturities

EUR '000	31 Dec. 2016	31 Dec. 2015
Loans and advances to banks		
Repayable on demand	815,520	789,885
Up to 3 months	50,064	56
3 months to 1 year	50,395	168
From 1 to 5 years	32,362	81,917
Over 5 years	50,006	50,065
Total	**998,347**	**922,091**
Loans and advances to customers		
Repayable on demand	160,984	168,601
Up to 3 months	581,431	355,023
3 months to 1 year	852,521	1,011,771
From 1 to 5 years	3,079,989	3,326,083
Over 5 years	6,180,007	6,695,809
Total	**10,854,932**	**11,557,287**
Assets held for trading		
Repayable on demand	0	0
Up to 3 months	650	2,771
3 months to 1 year	2,109	737
From 1 to 5 years	7,269	25,738
Over 5 years	545,265	557,565
Total	**555,293**	**586,811**
Financial assets designated at fair value through profit or loss		
Repayable on demand or no fixed term	0	0
Up to 3 months	206	0
3 months to 1 year	617	4,118
From 1 to 5 years	19,517	0
Over 5 years	0	0
Total	**20,340**	**4,118**

EUR '000	31 Dec. 2016	31 Dec. 2015
Available-for-sale financial assets		
Repayable on demand or no fixed term	50,977	7,724
Up to 3 months	129,271	11,418
3 months to 1 year	369,523	153,211
From 1 to 5 years	620,686	940,927
Over 5 years	796,691	991,058
Total	**1,967,148**	**2,104,338**
Positive fair value of derivatives (hedge accounting)		
Repayable on demand or no fixed term	0	0
Up to 3 months	4,037	2,301
3 months to 1 year	39,296	12,800
From 1 to 5 years	122,136	191,665
Over 5 years	317,746	302,692
Total	**483,215**	**509,458**
Other assets		
Repayable on demand or no fixed term	5,554	23,015
Up to 3 months	9,790	18,149
3 months to 1 year	19,971	7,489
From 1 to 5 years	167,530	762
Over 5 years	58,548	595
Total	**261,393**	**50,010**

8.7.2 Analysis of liabilities by maturities

EUR '000	31 Dec. 2016	31 Dec. 2015
Deposits from banks		
Repayable on demand or no fixed term	162,825	127,446
Up to 3 months	81,397	756,578
3 months to 1 year	716,590	176,035
From 1 to 5 years	26,942	610,893
Over 5 years	474,544	546,543
Total	**1,462,298**	**2,217,495**
Deposits from customers		
Repayable on demand or no fixed term	1,181,910	926,460
Up to 3 months	504,313	630,125
3 months to 1 year	1,517,190	981,164
From 1 to 5 years	506,663	630,993
Over 5 years	137,779	92,114
Total	**3,847,855**	**3,260,856**
Debts evidenced by certificates		
Repayable on demand or no fixed term	578	499
Up to 3 months	354,825	364,071
3 months to 1 year	1,276,985	329,036
From 1 to 5 years	3,332,626	4,288,588
Over 5 years	2,733,817	3,183,643
Total	**7,698,831**	**8,165,837**
Liabilities held for trading		
Repayable on demand	0	0
Up to 3 months	528	231
3 months to 1 year	1,660	2,974
From 1 to 5 years	4,686	18,074
Over 5 years	496,080	495,690
Total	**502,954**	**516,969**

EUR '000	31 Dec. 2016	31 Dec. 2015
Negative fair value of derivatives (hedge accounting)		
Repayable on demand	0	0
Up to 3 months	1,265	147
3 months to 1 year	5,548	3,949
From 1 to 5 years	41,534	61,825
Over 5 years	745,350	675,041
Total	**793,697**	**740,962**
Other liabilities		
Repayable on demand or no fixed term	18,870	18,357
Up to 3 months	9,641	18,106
3 months to 1 year	65,665	32,892
From 1 to 5 years	27,708	28,532
Over 5 years	7,545	8,410
Total	**129,429**	**106,297**
Subordinated capital		
Repayable on demand	0	0
Up to 3 months	0	0
3 months to 1 year	200,928	0
From 1 to 5 years	1,453	205,449
Over 5 years	0	0
Total	**202,381**	**205,449**

8.8 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. Commissions are reported in the statement of comprehensive income (Note 5.4 Net fee and commission income, under other fee and commission income and other fee and commission expense).

There were no trust transactions not reported in the financial statements as at 31 December 2016 or 31 December 2015.

8.9 CONTINGENT LIABILITIES AND CREDIT RISK

8.9.1 Contingent liabilities

EUR '000	31 Dec. 2016	31 Dec. 2015
Acceptances and endorsements	109	109
Liabilities arising from guarantees and provision of collateral	114,884	119,657

8.9.2 Credit risk

EUR '000	31 Dec. 2016	31 Dec. 2015
Unutilised facilities	1,235,099	1,355,257

Unutilised facilities include both unutilised loan facilities and revolving borrowing facilities (e.g. overdraft facilities), where there is a strong likelihood that the unutilised credit facilities will be used within the contractually agreed period. Credit lines can be used at any time, meaning that a higher degree of uncertainty is associated with utilisation and the maturity date. The amounts disclosed for unutilised facilities also include amounts forming part of disclosures in Note 8.5 Disclosures on related-party relationships.

Unutilised facilities are largely in the public sector. They also include the unpaid amount of the one-eighth obligation with respect to the Heta securities.

8.10 Mortgage banking in accordance with the Pfandbriefgesetz (Covered Bond Act)

31 Dec. 2016, EUR '000	Coverage required for debts evidenced by certificates	Coverage of: loans	Coverage of: financial instruments	surplus coverage
Covered bonds	935,190	1,526,616	24,262	615,688
Public sector covered bonds	3,023,979	4,314,474	129,925	1,420,420
Total	**3,959,169**	**5,841,090**	**154,187**	**2,036,108**

31 Dec. 2015, EUR '000	Coverage required for debts evidenced by certificates	Coverage of: loans	Coverage of: financial instruments	surplus coverage
Covered bonds	927,136	1,489,129	19,710	581,703
Public sector covered bonds	3,164,233	3,974,554	162,481	972,802
Total	**4,091,369**	**5,463,683**	**182,191**	**1,554,505**

8.11 EVENTS AFTER THE REPORTING PERIOD

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

8.12 GOVERNING BODIES OF HYPO NOE GRUPPE BANK AG

The following persons were members of the Management and Supervisory Boards during the reporting period:

Management Board

- Peter Harold, Chairman
- Nikolai de Arnoldi (until 31 December 2016)
- Wolfgang Viehauser (from 15 July 2016)

Supervisory Board

- Günther Ofner, Chairman
- Michael Lentsch, Deputy Chairman
- Engelbert J. Dockner
- Karl Fakler
- Gottfried Haber
- Ulrike Prommer
- Karl Schlögl
- Hubert Schultes

Delegated by the Works Council

- Hermann Haitzer
- Peter Böhm
- Franz Gyöngyösi
- Claudia Mikes

State commissioners

- Hans Georg Kramer, CFP, Federal Ministry of Finance
- Johannes Pasquali, Federal Ministry of Finance (from 1 Jan. 2016)

Supervisory commissioners

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

St. Pölten, 17 February 2017

The Management Board

Peter Harold
Chairman of the Management Board

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

Wolfgang Viehauser
Member of the Management Board
(from 15 Jul. 2016)

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 Group's assets, finances and earnings, in conformity with the relevant accounting standards; that the Group operational and financial review presents the course of the Group's business, and its results and financial condition in such a manner as to give a true and fair view of the Group's assets, finances and earnings; and that the Group operational and financial review describes the principal risks and uncertainties to which the Group is exposed.

St. Pölten, 17 February 2017

The Management Board

Peter Harold
Chairman of the Management Board
CEO
responsible for
Group Communications & PR, Group Treasury & ALM, Group Strategic Planning, Group Human Resources, Audit[1], Group Financial Institutions & Sales Support, Executive Board Affairs, Group General Secretariat & Participations, Real Estate Finance, Corporate & Structured Finance

Dr. Udo Birkner
Member of the Management Board
(from 1 Jan. 2017)
CFO & CRO
responsible for
Group Legal & Compliance[2], Group IT/Organisation, Analysis & Reviews, Intensive Care Management, Group Credit Services, Group Treasury Services, Group Facility Management & Security, Group Strategic Risk Management, Group Finance, Regulatory Reporting & Tax Advisory, Group Controlling

Wolfgang Viehauser
Member of the Management Board
(from 15 Jul. 2016)
CBO
responsible for
Public Finance, Group Religious Communities, Special Interest Groups and Agriculture, Public Loan Management, Marketing

(1) Reports directly to the Group Management Board

(2) The Compliance Officer and Anti-Money Laundering Compliance Officer report directly to the Group Management Board, and an initial report is sent to the Head of Back Office Operations

AUDITORS' REPORT

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of HYPO NOE Gruppe Bank AG, St. Pölten, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of com-prehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB and the Austrian Banking Act.

Basis for Opinion

We conducted our audit in accordance with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Au-diting (ISAs). Our responsibilities under those standards are further described in the "Au-ditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in ac-cordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- Impairment of loans with increased risk criteria (the "Watch-loans")

Description and Issue

As of 31.12.2016 volume of loans to customers with increased risk criteria ("Watch Loans") was EUR 215m. Watch Loans are subject to intensified credit monitoring. Specif-ic risk provisions on individual loans are only recognized, once the loan engagement has been transferred to the Workout Management Department. The Bank's internal guidelines include listing of exemplary criteria for the transfer of Watch Loans to the Workout Man-agement Department. The decision-making process relating to transfer, and thus for as-sessing the need for specific risk provisions require a significant degree of subjective judgment.

We refer to the Notes to the consolidated financial statements/Risk management/Credit risk/Credit risk analyses.

Given the importance for the consolidated financial statement and the significant degree of judgment regarding the assessment of risk factors responsible for the transfer of Watch Loans to the Workout Management Department, the recoverability of the watch loans was identified by us as a key audit matter.

Our Response

We evaluated design, implementation and operating effectiveness of the key controls regarding the process for identifying and evaluating the risk factors for transfer of Watch Loans to the Workout Management Department. We critically challenged the require-ments for potential specific risk provisions for a sample of Watch Loans.

Other Information

Management is responsible for the other information. The other information contain all information in the annual report but does not include the consolidated financial state-ments, the management report and our auditor's report thereon. The annual report is expected to be made available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other infor-mation and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge ob-tained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Stand-ards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for as-sessing the Group's ability to continue as a going concern, disclosing, as applicable, mat-ters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no real-istic alternative but to do so.

The audit committee are responsible for overseeing the Group's financial reporting pro-cess.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated finan-cial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the management has conducted or will con-duct the affairs of the Group.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and main-tain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated finan-cial statements, whether due to fraud or error, design and perform audit proce-dures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the pur-pose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material un-certainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated finan-cial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervi-sion and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant de-ficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with rele-vant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our inde-pendence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would rea-sonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

Opinion

In our opinion, the consolidated management report are prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a UGB and is consistent with the consolidated financial statements.

Statement

In the light of the knowledge and understanding of the Group and its environment ob-tained in the course of our audit of the consolidate financial statements, we have not identified material misstatements in the consolidated management report.

Engagement Partner

The engagement partner responsible for the audit is Mr. Thomas Becker.

Vienna, February 20, 2017

Deloitte Audit Wirtschaftsprüfungs GmbH

Thomas Becker m.p.
Certified public accountant

ppa. Wolfgang Wurm m.p.
Certified public accountant

The consolidated financial statements baring 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 version

REPORT OF THE SUPERVISORY BOARD

In 2016 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 and the Group's affairs.

HYPO NOE Gruppe Bank AG's accounts and records, the **2016 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 2016 and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board, and hereby approves the 2016 annual financial statements in accordance with section 96(4) Aktiengesetz (Austrian Companies Act).

The auditors Deloitte Audit Wirtschaftsprüfungs GmbH audited the **2016 consolidated financial statements** for compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, as adopted by 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 2016, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted in the EU, and the additional requirements of section 59a Banking Act. 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, 27 February 2017

The Supervisory Board

Günther Ofner
Chairman

LIST OF ABBREVIATIONS

AFS .... available for sale
ALCO.................. Asset Liability Committee
ALM .... Asset Liability Management
GDP..................... gross domestic product
BIRG.................... Bank Intervention and Restructuring Act
BWG .... Banking Act
CDS .... credit default swap
CEE .... Central and Eastern Europe
CEO .... Chief Executive Officer
CFO .... Chief Financial Officer
CRD IV................ Capital Requirements Directive IV
CRO..................... Chief Risk Officer
CRR I.................. Capital Requirements Regulation I
CSC .... current service cost
CVA/DVA .... credit/debt valuation adjustment
DBO..................... defined benefit obligation
EBA..................... European Banking Authority
EBRD .... European Bank for Reconstruction and Development
IT......................... information technology
EIB .... European Investment Bank
EIU .... Economist Intelligence Unit
EMIR .... European Market Infrastructure Regulation
ESI....................... economic sentiment indicator
ECB .... European Central Bank
FATCA................. Foreign Account Tax Compliance Act
FMA .... Austrian Financial Market Authority
FTE...................... full-time equivalent
FX........................ foreign exchange
GDP..................... gross domestic product
HC .... head count
Heta .... Heta Asset Resolution AG
IAS .... International Accounting Standard
ICAAP................. Internal Capital Adequacy Assessment Process
IFRS.................... International Financial Reporting Standard
INT .... interest cost
ICS .... internal control and risk management system
IPRE.................... income-producing real estate
IMF .... International Monetary Fund
KfW .... Kreditanstalt für Wiederaufbau
SMEs................... small and medium-sized enterprises
LCR .... liquidity coverage ratio
LGD .... loss given default
LIP....................... loss identification period
NPA..................... non-performing asset
NPL..................... non-performing loan
NSFR .... net stable funding ratio
OECD.................. Organisation for Economic Cooperation and Development
OeNB................... Oesterreichische Nationalbank (Austrian central bank)
OffV..................... Austrian Financial Market Authority Disclosure Order
OIS discounting. overnight index swap discounting
OMT..................... outright monetary transaction
OpRisk .... operational risk
OTC derivatives. over-the-counter derivatives
OTC options .... over-the-counter options
PD .... probability of default
PIIGS................... Portugal, Ireland, Italy, Greece, Spain
RICO.................... Risk Management Committee
S&P .... Standard & Poor's
UGB..................... Austrian Business Code
UK .... United Kingdom
USA..................... United States of America
WEG .... Austrian Condominium Act
WIFO .... Austrian Institute of Economic Research
YoY...................... year on year

IMPORTANT INFORMATION:

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

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

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

IMPRESSUM

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- Page 42: Christian Handl/imageBROKER/picturedesk.com – Wartenstein castle, Schlagl, Gloggnitz
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