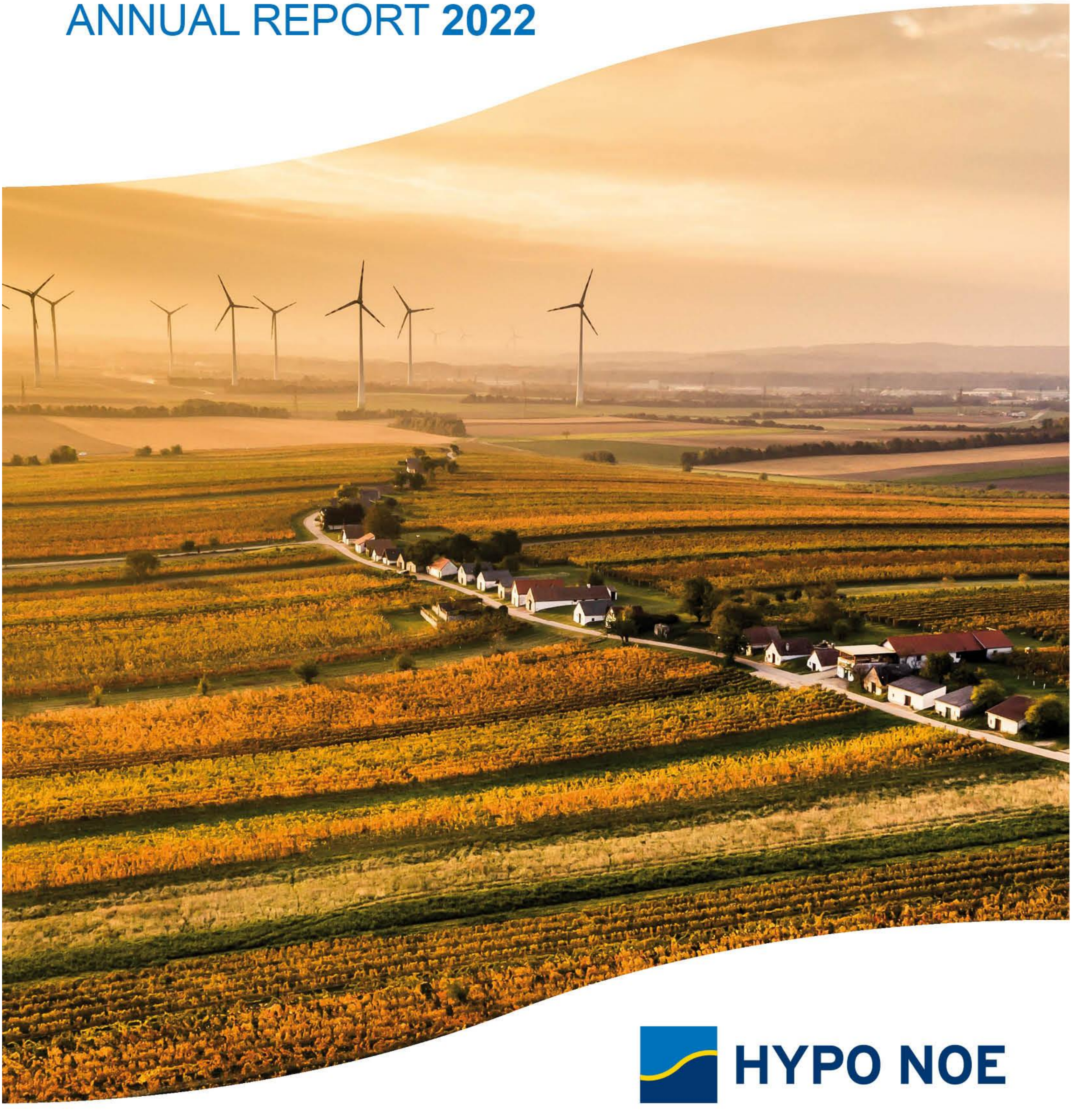
ANNUAL REPORT **2022**



HYPO NOE

CURRENT RATINGS

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

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

ISS ESG: C+ Prime status sustainability rating

GROUP FINANCIAL HIGHLIGHTS

EUR '000

Consolidated statement of comprehensive income	2022	2021
Net interest income	142,129	140,334
Administrative expenses	-102,655	-101,465
Impairment losses on financial assets – IFRS 9 ECL	-3,733	-10,679
Profit before tax	**61,580**	**54,228**
Income tax expense	-14,453	-12,373
Profit for the year	**47,127**	**41,855**
Return on equity before tax	8.01%	7.44%
Cost/income ratio	51.69%	52.14%
Consolidated statement of financial position	**31 Dec. 2022**	**31 Dec. 2021**
Total assets	15,121,252	16,763,250
Financial assets – AC	13,899,591	14,053,484
Financial liabilities – AC	13,362,690	14,920,835
Equity (incl. non-controlling interests)	790,571	747,344
Non-performing loan ratio	1.02%	0.85%
Regulatory indicators	**31 Dec. 2022**	**31 Dec. 2021**
Eligible Tier 1 capital	772,830	729,622
Total eligible capital	772,830	729,622
Minimum capital requirement (Pillar I)	301,300	301,609
Excess equity	471,530	428,013
Total risk exposure amount in accordance with Art. 92(3) CRR	3,766,253	3,770,117
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	20.52%	19.35%
Total capital ratio in accordance with Art. 92(2)(c) CRR	20.52%	19.35%
Leverage ratio in accordance with Art. 92(2)(d) CRR	5.14%	4.88%
Liquidity coverage ratio	162.89%	202.45%
Net stable funding ratio	112.54%	120.40%
Operational resources	**31 Dec. 2022**	**31 Dec. 2021**
Employees	616	630
Branches	27	27

Further information regarding the change in the number of employees as at year-end can be found in Note 5.3.2 Staff costs.
For details of the calculation see section 3.2 Earnings performance.

FOREWORD BY THE SUPERVISORY BOARD

In spite of multiple crises, in particular Russia's attack on Ukraine and the resulting political and economic upheaval, 2022 was an astonishingly successful year for Austria, with economic growth nudging 5%, as well as record employment and the country's lowest unemployment rate for 15 years. On a particularly satisfying note, Lower Austria put in a slightly stronger performance than the rest of Austria. Driven by sharp increases in energy prices, record inflation prompted central banks to raise interest rates several times in quick succession. Economic growth is expected to level off in 2023 as a result, although Austria's economy is outperforming that of other countries, including Germany, and the prospects for solid growth this year are good.

HYPO NOE continued to pursue its clear strategic line in 2022, and capitalised impressively on its long-standing role as the bank for the State of Lower Austria and a strong partner for the public sector, the real estate segment and the domestic economy. The Group also played to the strengths of its solid retail customer portfolio. This approach was underpinned by a risk-conscious business model coupled with an emphasis on HYPO NOE's strengths, factors that also guided the fine-tuning of the business model. This enabled the HYPO NOE Group to continue supporting its customers through these difficult times with tailored, bespoke financing and the most effective solutions possible.

The bank for Lower Austria also took steps aimed at developing its business strategy, and as a sustainable bank

HYPO NOE enjoyed particular success with its range of sustainable investment and financing options. In April 2022 the Group issued a EUR 500m, three-year senior preferred benchmark bond. As with our debut green bond issue in 2020, an outstanding 67% of our latest green bond placement was snapped up by investors focused specifically on eco-friendly, sustainable investments. The issue proceeds will be earmarked exclusively for green loans for projects and activities that promote climate protection, as well as various other environmentally friendly and sustainable purposes.

One of these options is our green investment loan for corporates, which HYPO NOE launched in late 2022. It provides companies with finance to help them implement sustainable and environmentally friendly projects. What sets the green investment loan apart is that corporate customers can also benefit from potential liquidity cost advantages generated by the green bond issue.

The rating agencies gave HYPO NOE top marks once again. Singling out the Group's business model for special mention, Standard & Poor's retained the Bank's solid single A rating with a stable outlook. Respected sustainability rating agencies also paid tribute to HYPO NOE's efforts in terms of environmental and social responsibility: HYPO NOE has held ISS ESG Prime status for many years now.

In 2022 the Supervisory Board was involved in all fundamental decisions, supervised the Management Board in accordance with legal requirements and provided it with guidance relating to the management of the Group. Through its plenary and committee meetings, and reports from the Management Board, the Supervisory Board was able to obtain a timely and comprehensive picture of the relevant economic and financial developments affecting the HYPO NOE Group. The Bank's excellent performance shows it is heading in the right direction with its focused, risk-aware strategy.

This also enables the HYPO NOE Group to continue playing a significant part in promoting the region as a business location and assisting our sole owner, the State of Lower Austria. The State supports HYPO NOE's continued expansion thanks to its long-term focus and the varying forms of backing it provides, while the Group works to ensure consistent dividend income and steady growth in the Bank's value.

However, above all, the Group's successful track record is testimony to the tireless dedication and outstanding work of its employees and the Management Board, and the Supervisory Board would like to take this opportunity to thank them all.

Günther Ofner

Chairman of the Supervisory Board

FOREWORD BY THE MANAGEMENT BOARD

The year just ended was a highly eventful one – both for the people of this country and the domestic economy. Although still not to be underestimated, Covid-19 has now become part of our everyday lives. But even so, events on this front were quickly overtaken by the war in Ukraine and its humanitarian, economic and political fallout. Already high, inflation has climbed further and continues to place a heavy burden on most people to this day. We are all feeling the consequences of exploding prices everywhere in our day-to-day lives: at the supermarket or petrol station, and when our electricity and heating bills land in the letterbox. In order to counter this development, the ECB ditched its low interest policy, raising base rates by a few percentage points in a series of steps starting from the midway point of the year. Further increases have already been announced. It is extremely hard to forecast when inflation rates will stabilise, though.

2022 was also a year of contradictions. While all of these events – from the coronavirus pandemic and the Ukraine conflict to supply chain difficulties, rising prices and economic uncertainty – made it a testing 12 months for the HYPO NOE Group, the Bank still managed to put in an extremely strong showing and reported substantial growth in profit. The Group, which has no exposures in Russia or Ukraine and has not been directly affected by the war as a result, reported profit before tax of EUR 61.6m in 2022, an increase of EUR 7.4m on the previous year. Net interest income climbed by around 1% to EUR 142.1m, while the cost-income ratio (CIR) stood at 51.69, down from 52.14 a year earlier.

But our operations are not only significant for the Group itself: according to a study of our economic footprint carried out by business research institute Economica, for every employee working at HYPO NOE the Bank also secures one job outside the Group. Furthermore, every euro of added value generated by our operations creates 35 cents of regional added value for Lower Austria alone, and 44 cents nationwide. This clearly shows that as a business based in the region, HYPO NOE plays a substantial part in the Lower Austrian economic system and creates added value for the state as a whole.

For our customers, this value comes in many forms, including through our Grüne Linie green product range. Alongside the successful placement of our second green bond, 2022 also saw the range expand with the launch of our green investment loan for corporates, which supplements our green housing loan and green savings and current accounts. The reasoning behind this step is clear: climate and environmental protection have been a matter of course for HYPO NOE for many years. It is important to us that we integrate and extend our sustainable company philosophy to every conceivable aspect of our business, which is why we have also signed up to the Federal Climate Action Ministry’s klimaaktiv Pakt 2030 initiative. On top of that, the demand for sustainable financing options is on the up, too. Going back to the green investment loan, we can now envisage offering businesses preferential interest rates for sustainable and environmentally friendly projects. If the investment qualifies for funding from the green bond proceeds and the purpose has a positive, sustainable impact, HYPO NOE can pass on the liquidity cost advantages generated by the green bond to corporate customers. By doing so, HYPO NOE promotes financing that meets the technical screening criteria of the Taxonomy Regulation – which in turn makes a significant contribution to achieving the EU’s six environmental targets – as well as financing in accordance with the Group’s Green Bond Framework, which relates to funding for projects such as energy-efficient upgrades, construction of e-vehicle charging points, switching to electric vehicles and LED lighting, as well as renewable wind, solar and geothermal energy projects and installation of photovoltaic systems. By the way, we also practice what we preach: in 2022 we extended the photovoltaic system on the roof of our St. Pölten HQ. Producing 114,000 kilowatt hours per year, the system produces enough power for 37 households, up from ten beforehand.

HYPO NOE has also added to its portfolio of securities-related products. The Group has teamed up with Schelhammer Capital with a view to combining contemporary digital services with excellent personal advisory services. This will enable HYPO NOE to sharpen its focus, in line with our strategic development process. Our experts will continue to provide personal support, while Schelhammer Capital will offer a range of exclusive and more diversified funds as well as operating a state-of-the-art securities banking platform. This step will allow us to combine the sharing of expert knowledge in the course of customer consultations and innovative digital tools, while at the same time considerably expanding our securities product portfolio.

Our refinancing operations also went well in 2022. A regular issuer of secured and unsecured benchmark bonds, HYPO NOE placed two EUR 500m covered bonds – one mortgage-backed and one from the public sector cover pool – in addition to the second green bond. There was strong investor demand for each of these transactions, and the issues were all oversubscribed, which reflects HYPO NOE’s strong reputation as a secure and stable bank.

This also explains why we are a welcome participant in innovative and sustainable business initiatives. We have been the lead partner at the Tulln-based House of Digitalization since the start of 2022. The goal of this flagship project is to proactively shape digitalisation and bring it to life – an objective that HYPO NOE constantly aims to support in this age of rapidly expanding technological possibilities. The link between the virtual and real-world iterations of the House of Digitalization is why we identify so closely with this stand-out project. Implementing digitalisation processes within the Group and providing digital services for our customers are both gaining in importance. But at the same time, personal advice and service from our experts remains essential.

None of these successes would have been possible without our exceptional employees. Every day, more than 600 staff give it their all, developing the best possible solutions for our customers. And we can rightly be proud of each and every one of them. So it is all the more satisfying when initiatives designed to make us an even better employer receive recognition from outside. Recently, we were again awarded the title of Leading Employer – putting us in the top 1% of all employers in the country. And consolidating our position as a top employer still further is something we take extremely seriously. This is why we are working hard internally to create a shared employee experience. What's more, we hit a long-standing target at the end of last year: we introduced a change that would allow staff to work from home up to 50% of the time.

On the whole, in what was a very successful year, HYPO NOE continued to play to its strengths, and made further improvements in its service and product offerings for customers. And this reflects our belief that we have a duty to remain a reliable financial and economic partner for the people and businesses of Lower Austria, and to carry on channelling all of our energies into constantly enhancing our business model and supporting progress in all lines of business.

Wolfgang Viehauser and Udo Birkner

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022 IN ACCORDANCE WITH IFRS HYPO NOE GROUP

Annual Report
HYPO NOE Group

GROUP OPERATIONAL AND FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2022 IN ACCORDANCE WITH IFRS HYPO NOE GROUP

1 ECONOMIC CLIMATE

1.1 Global economic and financial market trends

2022 got under way in a spirit of optimism. The Omicron variant of the virus, which emerged in late autumn of the previous year, quickly proved to be less dangerous than its predecessors. As a result, restrictive lockdown measures were dispensed with in most countries, with the exception of China. The general expectation was that the global economy would continue to mount a strong recovery from its slump in 2020. As regards the rapid rise in inflation seen the previous year – predominantly attributable to pent-up demand in private consumption and supply bottlenecks caused by supply chain issues – central banks and economists largely concurred that it would gradually ease in the course of 2022.

However, things turned out quite differently. The 2020 outbreak of the pandemic was followed by yet another black swan event. On 24 February, Russia launched its military incursion into Ukraine, ushering in a new geopolitical era. Der Spiegel’s word of the year for 2022 – *Zeitenwende* (literally: “turn of the times”) – probably sums it up best. Russian President Vladimir Putin had decided to finally turn away from Western Europe and pivot fully towards China, having first secured its political blessing for the more aggressive direction taken by Russia’s foreign policy. Owing to its relative insignificance – in economic terms – for the world economy, Russia used the greatest source of leverage it had against Europe: the continent’s dependence on Russian natural resources, and gas and crude oil in particular. As early as 2021, less Russian gas had started flowing into Europe, in some cases under the flimsiest of pretexts. Gas and oil prices began to rise sharply in autumn 2021. The Russian invasion of Ukraine at the beginning of 2022 was launched at a time when gas storage facilities in Europe were relatively empty. Immediately after the outbreak of war, Western countries imposed tough sanctions on Russia, to which Moscow responded by gradually scaling back gas deliveries to Europe and ultimately halting them altogether, as well as issuing repeated threats to use nuclear weapons. While the conflict plays out between Russia and Ukraine on a military level, an economic and energy war has broken out with the whole of Europe.

The significance of the new, highly charged geopolitical situation for the global economy should not be underestimated. The "peace dividend" – savings from reduced spending on arms – claimed by Western Europe since the end of the Cold War and the fall of the Iron Curtain has ceased to exist. Instead, a new global arms race has begun in its place. This comes at a time when public debt is at historic highs and state budgets worldwide are coming under unprecedented strain. The fight against climate change, as well as efforts to decarbonise the economy and measures to combat the consequences that are already being seen will call for – and tie up – considerable financial resources. China and a number of other industrialised countries are facing unfavourable demographic shifts which are not only placing a burden on social security systems, but may also have a negative impact on economic development in the form of labour shortages. There is a real danger that political bloc building will give rise to economic bloc building. Evidence of this was provided during the year in relations between China and Taiwan, where conflict has been simmering for years. Chinese President Xi, who consolidated in his position domestically by securing a third term in office, issued a thinly veiled threat to use military means to unite what China sees as the breakaway democratic Republic of Taiwan with mainland China. The power struggle between the different blocs, with China and the United States of America at their respective centres, for global political and economic influence reached a new dimension in 2022.

Unsurprisingly, the developments outlined above have had a negative impact in economic terms. Western sanctions and Russia's energy war have brought uncertainty about future developments to a head. Both industry and private household sentiment deteriorated significantly during the course of the year. Private households in particular were heavily burdened by high inflation and the sharp rise in energy prices. The EU Commission's monthly consumer sentiment index plummeted to -27.8 points in September, the lowest level since the survey began. Excess savings from the time of the pandemic and the buoyant labour market did little to brighten the mood. Still evident at the start of 2022, business confidence also dwindled in the course of the year. The purchasing managers' index for the manufacturing sector in the eurozone started at a high level of 58.7 points, in a clear indication of an expansionary economy. By October, it had reached a low for the year of 46.4 index points, a value that signals an impending recession. In addition to geopolitical developments and rapidly rising raw material prices, industrial companies had to contend with persistent supply chain issues and insufficient labour. It is down to these adverse circumstances that industrial production was up only slightly year on year in spite of initially strong order intake and, in some cases, historically high order backlogs. On a positive note, the strong order books built up over the past two years are now acting as a buffer in the current economic downturn.

Developments in the service sector were completely different. Due to the progression of the pandemic and the government measures announced to combat it at the end of 2021, the services sector got off to a subdued start in 2022, with the purchasing managers' index at 51.1 points. In the immediate wake of the restrictions being lifted, this key sector of the economy recovered to 57.7 points by April. As sharp price increases started to become an ever greater burden on consumers over the course of the year, sentiment in the service sector declined markedly, dropping below the key 50-point threshold on its way to 48.5 points in November, its lowest level so far.

The global economy was also affected by the impact of the zero-Covid strategy of the government in Beijing. While the pandemic ceased to be a significant dampener for industrialised countries, China's strict adherence to its zero-Covid policy led to a large number of long-lasting, blanket lockdowns. Coupled with the existing problems in the real estate sector, stringent state quarantining regulations led to a noticeable loss of momentum for the Chinese economy. Economic output in 2022 was well below the average seen in recent years, making it the second weakest year in the last 40 years – and only slightly stronger than 2020 when the pandemic began. It was only the rising tide of resentment among the population in the face of strict and relentless government restrictions, as well as the highly negative consequences for the economy, that seemed to trigger a rethink. Shortly before the end of the year, the government lifted almost all of its pandemic restrictions. It appears that the zero-Covid policy was abandoned in favour of a new mass infection strategy. Since then, the number of new infections – which can only be roughly estimated due to a lack of reporting obligations and control measures – skyrocketed.

2022 was also an extreme year in terms of price developments and will go down as a particularly negative chapter in the annals of economic history. Rampant inflation, which had started to gain momentum at the start of 2021, was exacerbated by the fallout from the war in Ukraine. While fiscal policy induced a boom in demand which coincided with a pandemic-related supply shortage and caused prices to rise across the board in 2021, in the reporting period it was ultimately spiralling energy costs that proved to be the main driver of inflation. The specific conditions in the EU fuelled a particularly negative mix as far as price developments were concerned. Not only was the Union massively dependent on supplies of Russian gas, the indirect coupling of electricity and gas prices proved to be its Achilles' heel. A situation that Russia initially exploited to its own benefit. The wholesale price on the European gas market – EUR 16/MWh at its lowest and averaging around EUR 47/MWh in 2021 (euro benchmark: one-month futures traded in the Netherlands) – rose to a peak of EUR 340/MWh in August. The EU and all its member states were forced to fill their gas storage facilities at extremely high prices before winter, as they scrambled to secure energy supplies in time for the heating period. The aim was to prevent a gas shortage in the winter of 2022/23. When it became clear that this difficult and expensive undertaking would succeed, the price of gas fell back to its pre-war level by the end of the year. Inflation in the eurozone reached 10.6% in October, the highest level ever recorded, due to the combined effects of the circumstances outlined above; adjusted for volatile energy and food prices, core inflation came out at less than half of that, at 5.0%. Price pressure on businesses was even more acute. Producer prices were 43.4% higher in August than in the previous year, before falling back to 27.0% in November.

Central banks were taken by surprise by developments as much as businesses. As inflation continued to gain pace, they were obliged to give up their expansionary monetary policies much more quickly than originally expected. In addition to the sharp rise in inflation, which was also attributable to a number of temporary one-time effects, central banks were concerned about the medium-term inflation outlook due to significant demand in the labour market and the potential it had to trigger a wage-price spiral. The US Federal Reserve started to hike rates tentatively, starting with a rise of 25 bps in March, before upping the pace to 50 bps and finally 75 bps on each occasion. The all-important key interest rate reached the 4.25-4.5% range at the end of the year. At its last meeting in December, the Federal Open Market Committee (FOMC) floated the prospect of a further rise next year to take interest into the 5.25-5.50% range.

To begin with, the ECB reacted to the strong price increases in the eurozone more hesitantly than other central banks, first ending its securities purchase programme in June before finally moving to raise its three key interest rates by an initial 50 bps in July. This was followed by three more increases before the end of the year, two of them at 75 bps each. At the end of the year, the deposit rate was 2.0%, the main refinancing rate was 2.5% and the marginal lending rate was 2.75%. The ECB also raised the prospect of further restrictive measures in 2023. In addition to further interest rate hikes, presumably towards the 3.25-3.5% range, there are plans to reduce its total assets, which have grown strongly over the past few years. The favourable refinancing conditions for European banks, provided in the past by Targeted Longer-Term Refinancing Operations (TLTROs), were withdrawn in November. In doing so, the ECB aims to significantly reduce its total assets and introduce more restrictive financing conditions for the economy.

The combination of geopolitical uncertainty, historic inflation and a rapid and drastic reversal in central banks' monetary policies made for a very challenging environment on the capital and foreign exchange markets. In waves, performance on most stock markets moved deep into the red. Poor economic prospects combined with the most pronounced cycle of interest rate hikes in recent decades led to a revaluation of corporate stocks. However, it was the bond sector that was particularly hard hit. Central banks' previously ultra-loose monetary policy artificially distorted yields, taking them to their lowest levels while at the same time sending bond prices soaring to all-time highs. This was the point of departure for bond markets in 2022, which was characterised by sharply rising yields. Uncertainty regarding the reappraisal of international monetary policy did the rest. By the end of the year, almost all key asset classes were in the red on an annualised basis, despite equities mounting a recovery from the autumn. 2022 was one of the worst years in decades for investors because even the most prudent forms of diversification between asset classes were not enough to prevent significant losses.

On the foreign exchange market, the US dollar and the Swiss franc in particular – safe havens for international investors – benefited from developments, while the euro was among the losers. The EUR/USD exchange rate fell below parity for the first time in 20 years, and the Swiss franc for the first time since 2015. As it became apparent in the last few weeks of the year that the economic situation in the eurozone might in fact be better than market sentiment indicated, the euro made up some of its lost ground and began to recover. By contrast, the market for cryptocurrencies, which had been hyped up during the pandemic in 2020 and 2021, experienced a major correction with Bitcoin and its counterparts trading down by at least 65% in 2022. In addition to the shift in monetary policy, the various scandals that rocked the market – which is still virtually unregulated – were behind these losses.

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

1.2.1 Austria and Germany

In spite of the challenging geopolitical environment, both countries in the HYPO NOE Group's core market once again recorded economic growth in 2022. According to the Oesterreichische Nationalbank (OeNB), economic growth in Austria, at 4.6%, was significantly higher than in Germany (up 1.6%). The most recent forecast for eurozone growth was 3.2%. In 2022, the Austrian economy benefited – thanks to a significant recovery in the tourism sector – from extremely strong export growth and accelerated public investment, as well as fiscal packages, which stimulated private consumption despite high inflation.

The outbreak of war in Ukraine on 24 February 2022 exacerbated the raw material and supply bottlenecks that had already become apparent in 2021. Throttled and interrupted energy supplies necessitated a rapid diversification of supply structures in the sector towards new and, in most cases, more expensive suppliers. At the same time, energy scarcity and energy efficiency were an increasing focus. The latest OeNB forecasts put inflation as high as 8.7% for 2022. Statistics Austria's wholesale price index remained at a historically high level of 136 points in November 2022 (up 16.5 percentage points year on year). The main factors behind the rise included the increased price of chemicals (up 101.8%), solid fuel (up 67.5%) and in particular goods needed for construction such as iron and steel (up 11.5%), construction machinery (up 11.7%) and building materials (up 19%).

The rise in inflation, which accelerated further due to the war in Ukraine, primarily as a result of high energy costs, led to an increasingly pessimistic mood among economic entities, especially in the third quarter of 2022. However, significant dampening of purchasing power was averted by means of fiscal stimulus packages including measures to soften the blow from energy price increases and a doubling of the climate bonus (around EUR 4bn so far). By contrast, housing investment was weaker than in the same period a year earlier due to price increases and shortages of building materials. However, the Austrian labour market remained stable with unemployment falling by as much as 2.2 percentage points in October 2022 to 4.6% (according to Eurostat). According to reports from the Austrian Ministry of Finance (BMF), tax revenue in October 2022 increased by 11.8% year-on-year, at a time when the cost of fiscal policy support measures and pandemic support measures still had to be borne.

1.2.2 Federal states

After the more or less complete absence of a winter season in 2020/21, the economies of Tyrol, Salzburg and Carinthia – all of which have significant tourism sectors – grew the most in 2022, expanding by more than 7%, although the number of overnight stays again fell short of pre-crisis levels recorded in 2019. According to UniCredit Research (December 2022), the remaining Austrian states recorded growth rates of more than 3.5% year on year (Lower Austria: 4.2%).

The pandemic again hit state budgets in 2022, as did support payments designed to lessen the impact of inflation. As a result, the state governments' net fiscal deficits are projected to reach a combined EUR 3.6bn (up 33% on 2021). However, the deficits are still likely to come in below those in 2020 and 2021, as the revenue shares distributed to state governments were up 26% on a year earlier (as of October 2022) due to stronger growth.

Internal estimates suggest that the aggregate financial debt of all states has increased by about 30% since the start of 2020 to EUR 31bn. Aggregate net new debt of EUR 1.5bn was assumed for 2022. The stability pact targets remain suspended, and at the same time the fiscal equalisation period has been extended to the end of 2023 and negotiations on fiscal equalisation commenced in December 2022.

1.3 Banking sector trends in the eurozone

In 2022, the banking sector was directly affected by a number of major challenges facing the global economy. These primarily included the war between Russia and Ukraine, the ongoing impact of the Covid-19 pandemic, high inflation and the monetary policy turnaround by leading central banks.

The OeNB continues to vouch for the robustness of the Austrian banking sector's business model, as it stressed in its November 2022 financial stability report. In this context, the OeNB explicitly welcomed the FMA Regulation on sustainable lending standards for residential real estate financing, which came into force in August 2022.

The average equity ratio (CET1) of 15.8% at 30 June 2022 showed that Austrian banks are well placed in the face of the current adverse developments. The decline compared with the figure for the end of 2021 (16.0%) is attributable to comparatively higher lending in the first half of 2022. The non-performing loan (NPL) ratio held firm at 1.8% at 30 June 2022 (31 Dec. 2021: 1.8%).

Rising costs and various write-downs on investments led to a drop in operating profits (despite the rise in operating revenue) in the country's banking sector in the first half of 2022. However, post-tax profits rose again during this period. Overall, Austria's banks have continued to benefit from the restructuring efforts of the past few years. In the course of an extended consolidation process, the number of banks (main institutions) has fallen by around a quarter since 2012.

The current challenges identified by the OeNB for the domestic banking sector apply equally to the rest of Europe. The continent's banks are also fundamentally well positioned: the equity ratios of financial institutions in the European Union have recently stabilised at high levels. One of the key trends during the year under review was the continuing digitalisation of customer products and services. Multi-channel approaches – which in the case of universal banks still feature branches, albeit augmented by digital offerings – remained the customary strategy in Europe.

In several European countries, most notably in Spain, Italy and Norway, an ongoing trend towards consolidation has been observed in the national banking sector in recent years. In Austria, by contrast, there has been a noticeable break in the process of consolidation, regular mergers of local Raiffeisen banks notwithstanding. That said, one Austrian regional bank began the planned disposal of its conventional non-digital – i.e. bricks and mortar – banking business by means of a bidding process during the reporting period. However, the process is not due for completion until spring 2023 at the earliest.

2 COMPANY PROFILE

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

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

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

The Group concentrates on four business segments that play to its core competences: Public Sector, Real Estate, Retail and Corporate Customers, and Treasury & ALM. The wholly owned HYPO NOE Leasing subsidiary, which specialises in real estate leasing to public sector clients and has extensive experience of "Maastricht-compliant" financing structures, enables the Group to concentrate on serving large federal government, state government and local authority clients. Figures for the individual segments, as well as supplementary narrative information, are presented in Note 2 SEGMENT INFORMATION.

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

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

The Bank's sustainable approach to its core operations is underpinned and promoted by clear ethical principles and business policies. Its portfolio is geared strongly towards sustainability due to the large proportion of lending that creates social value added. ISS ESG Prime status underlines the Bank's commitment to environmental and social responsibility. HYPO NOE Landesbank has also received ESG ratings from Sustainalytics, Moody's ESG Solutions (previously Vigeo Eiris [V.E]) and imug, and has been awarded the DZ Bank sustainability seal of approval.

1 In terms of total assets (2021 consolidated financial statements) and date of establishment

3 FINANCIAL REVIEW

3.1 Highlights

- Significant increase in “Profit before tax” to EUR 61.6m (2021: EUR 54.2m)
- “Operating income” up again, to EUR 168.0m (2021: EUR 166.4m), confirming effectiveness of growth strategy in the face of challenging market conditions
- “Administrative expenses” at EUR 102.7m (2021: EUR 101.5m)
- Further improvement in the cost/income ratio (CIR): 51.69% compared with 52.14% a year earlier
- Risk provisions (ECL) remained stable at EUR 90.9m (31 Dec. 2021: EUR 91.6m).
- Increase in CET1 ratio to 20.52% (31 Dec. 2021: 19.35%)

3.2 Earnings performance

		31 Dec. 2022	31 Dec. 2021
Return on equity before tax	Profit before tax/avg. consolidated equity	8.01%	7.44%
Return on equity after tax	Profit for the period/avg. consolidated equity	6.13%	5.74%
Cost/income ratio	Operating expenses/operating income	51.69%	52.14%
NPL ratio	Carrying amounts of non-performing financial assets – AC (excl. banks)/financial assets – AC (excl. banks)	1.02%	0.85%

In 2022 the HYPO NOE Group reported “Profit before tax” of EUR 61.6m (2021: EUR 54.2m) and a return on equity (ROE) before tax of 8.01% (2021: 7.44%). The Group made further progress in implementing its FOKUS25 strategy, which is geared towards achieving a long-term increase in profitability through organic growth in the core business, while also maintaining the Group’s conservative risk profile and strong capital profile.

In spite of the challenging operating conditions, the Group posted a slight year-on-year increase in “Net interest income”, to EUR 142.1m (2021: EUR 140.3m). The income contribution of payment transactions was offset by a fall in intermediation commissions and one-time effects relating to subsidised homebuilding loans, resulting in a drop in “Net fee and commission income” to EUR 15.1m (2021: EUR 18.9m).

The EUR 3.0m increase in the contribution to the resolution fund as compared with 2021 resulted in higher “Administrative expenses”, which amounted to EUR 102.7m at year-end (2021: EUR 101.5m). Effective cost management enabled the Group to limit the rise in operating expenses. Combined with the increase in operating income, this led to a further improvement in the CIR to 51.69% (2021: 52.14%).

Risk provisions in the performing loan portfolio (Stages 1 and 2) were 14.29% down on year-end 2021, at EUR 42.9m, and there was a slight drop in total risk provisions (Stages 1-3) to EUR 90.9m (31 Dec. 2021: EUR 91.6m).

3.3 Cost/income ratio

The cost/income ratio is a key indicator of the HYPO NOE Group's long-term efficiency. It is calculated as the ratio of operating expenses to operating income and is made up as follows.

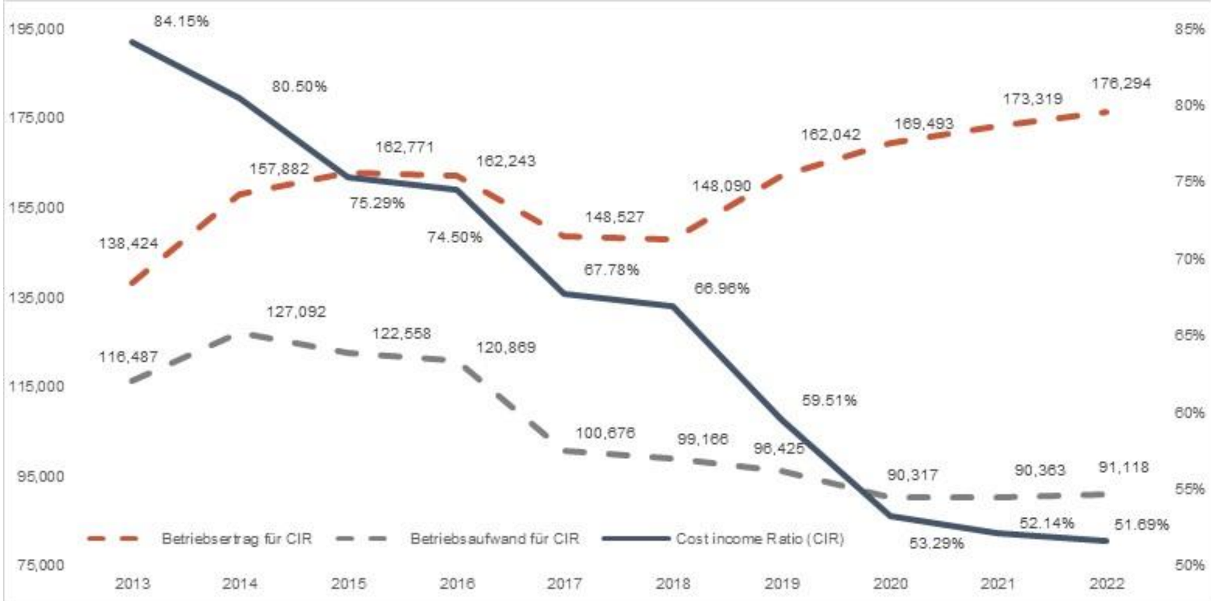
Operating expenses are based on the "Administrative expenses" item, which in 2022 – as in 2021 – was adjusted for the following exceptional, non-recurring earnings components: (1) the contribution to the resolution fund; (2) the contribution to the deposit insurance fund.

Operating income is composed of "Net interest income", "Net fee and commission income", "Net gains or losses on financial assets and liabilities", "Net other operating income" and "Net gains or losses on investments accounted for using the equity method". In 2022, as in the previous year, it excluded the following exceptional, non-recurring components: (1) valuation of the HETA contingent additional purchase price (see also Note 4.7 Fair value disclosures); and (2) the additional allocation to the provision for negative interest rates on corporate loans (see Note 6.2 Provisions).

EUR '000	2022	2021
Net interest income	142,129	140,334
Net fee and commission income	15,058	18,862
Net gains or losses on financial assets and liabilities	8,735	-1,352
Net other operating income	2,413	5,322
Net gains or losses on investments accounted for using the equity method	-368	3,207
Extraordinary effects	8,326	6,945
Operating income	**176,294**	**173,319**
Administrative expenses	102,655	101,465
Extraordinary effects	-11,537	-11,102
Operating expenses	**91,118**	**90,363**
CIR	**51.69%**	**52.14%**

The chart below, which shows movements in the CIR since 2013, reveals a significant improvement as a result of effective cost reduction measures and steps aimed at increasing earnings.

CIR since 2013*



*Retrospectively adjusted, as described above

3.4 Balance sheet movements

In 2022, the Group's new lending amounted to around EUR 1,607m, which was close to the level recorded a year earlier (EUR 1,739m). The Bank extended vital funding to customers, primarily for infrastructure projects, housing construction and corporate finance.

Successful new customer acquisition – achieved as part of the Group's strategy – is not directly reflected in the change in "Financial assets – AC" as compared with 31 December 2021. The ECB's change of direction on interest rates led to reductions in the basis adjustments on hedging relationships, and this item declined as a result.

Owing to the rise in market interest rates in 2022, developments on the liabilities side were likewise shaped by falling basis adjustments to hedging relationships, as well as lower fair values of derivatives. Meanwhile, the Group once again underscored its issuing capacity with the placement of three benchmark bonds. HYPO NOE Landesbank took advantage of the option to repay Targeted Longer-Term Refinancing Operations (TLTRO) III liabilities amounting to EUR 1,100,000thsd on 23 November 2022. Besides the effects outlined above, this also contributed to a reduction in total assets. Details are provided in Note 4.4 Financial liabilities.

3.5 Non-performing loan (NPL) ratio

The NPL ratio is calculated on the basis of the gross carrying amounts under the “Financial assets – AC” item, adjusted to exclude banks.

The following table shows the NPL ratio as at the stated reporting dates:

EUR ’000	31 Dec. 2022	31 Dec. 2021
Financial assets – AC (excl. banks)	12,929,274	13,110,725
Non-performing loans	132,426	111,883
NPL ratio	**1.02%**	**0.85%**

The Group’s very low NPL ratio can be traced back to its business model, which favours low-risk business and corresponding lending practices, as well as the systematic approach taken by Intensive Care Management.

3.6 Segment performance

The Group continued its strong performance in 2022, posting a gain in “Profit before tax” of EUR 7.4m to EUR 61.6m. This excellent result reaffirmed the rock-solid performance across the Group over the long term, driven by the decision to stick to the Company’s strategy even in the face of testing economic conditions. The operating segments all contributed to this result, as explained below.

Public Sector segment

The HYPO NOE Group’s core competences include developing custom financing solutions and delivering banking services to state governments, local and regional authorities, and public agencies.

The Public Sector segment contributed EUR 19.9m to consolidated “Profit before tax” in 2022 (2021: EUR 24.1m).

Net interest income remained steady in spite of the increased pressure on the margins on low-risk transactions in this segment as compared with the same period a year earlier. Net fee and commission income fell in 2022 as a result of one-time effects connected with subsidised homebuilding loans. In the previous year, a successful property transaction by a segment entity accounted for using the equity method contributed to high net gains on investments accounted for using the equity method. The increased contribution to the resolution fund during the reporting period had the effect of pushing up administrative expenses.

In spite of the difficult economic environment, the segment reported impairment gains on financial assets – IFRS 9 ECL in 2022. This offset the fall in profit for the year to some extent.

Segment assets declined year on year, although this was due to derivative valuations and the fall in basis adjustments owing to higher interest rates. On the operational side, the segment recorded further growth in spite of the volatile operating environment.

Real Estate

The Real Estate segment remained one of the key pillars of the HYPO NOE Group’s business model, posting profit before tax of EUR 20.8m (2021: EUR 18.0m).

Net interest income rose by 6.7% compared with the same period a year earlier, which reflects the segment’s highly successful financing operations. The segment accounted for the lion’s share of Group “Net fee and commission income”, at EUR 43.0m (2021: EUR 40.4m).

Following the successful conclusion of a restructuring initiative with the disposal of HYPO NOE First Facility GmbH in Q2 2021, the segment focused on providing a portfolio of typical banking services. The main outcome of the disposal was a year-on-year decrease in net other operating income, as well as in administrative expenses despite the additional contribution to the resolution fund. A gain of EUR 0.9m on the disposal of HYPO NOE First Facility GmbH was recognised in 2021.

Volatility on the markets during the year under review was reflected in the net losses on financial assets and liabilities, in the form of measurement losses on FVTPL loan agreements.

Changes in market parameters were the main reason behind the impairment loss recognised on NOE Immobilien Development GmbH, an entity accounted for using the equity method, which led to a net loss on investments accounted for using the equity method in this segment.

Retail and Corporate Customers segment

In spite of the challenging operating environment, the Retail and Corporate Customers segment again posted a strong contribution to the Group’s earnings, with profit before tax of EUR 7.2m. The segment disposed of its majority interest in HYPO NOE Versicherungsservice GmbH in 2022, leading to a gain on disposal of EUR 0.3m, which is recognised under net other operating income.

As expected, segment net interest income was lower year on year, which can be traced back to the focus on core products and a risk-aware approach to new lending. In spite of economic uncertainty and stricter criteria for approving housing loans based on a recommendation from the Financial Market Stability Board (FMSB), the segment saw another increase in assets.

Retail and Corporate Customers was the principal contributor to Group “Net fee and commission income”, generating EUR 14.2m (2021: EUR 14.7m). This year-on-year decrease reflects market uncertainty, with the securities, foreign exchange and insurance businesses particularly hard hit, although there was a highly satisfactory gain in the payment transactions business.

Although the segment reported measurement losses on FVTPL loan agreements due to market conditions, net gains on financial assets and liabilities came in at EUR 0.8m.

Following the increase in the deposit insurance fund contribution in 2021, this year’s lower contribution resulted in a year-on-year drop in administrative expenses in the reporting period.

There was also a slight improvement in the impairment losses or gains on financial assets – IFRS 9, ECL item compared with the previous year.

Treasury & ALM segment

In spite of the uncertain market setting and the ECB's change of course on interest rates, Treasury & ALM reported profit before tax of EUR 30.2m, topping the EUR 26.2m recorded in 2021, thanks mainly to forward-looking liquidity management, interest rate risk positioning within strict limits, and capitalising on existing market opportunities.

Net interest income fell by EUR 1.4m year on year in 2022 owing to the effects of implementing paragraph B5.4.6 of IFRS 9 due to the revision of estimates of the repayment dates for TLTRO liabilities. However, the impact was mitigated by positive refinancing effects from optimisation of acceptance of fixed-term deposits.

The "Net gains or losses on financial assets and liabilities" item includes net gains of EUR 7.4m on hedges and EUR 3.3m on the sale of nostro positions, a net loss of EUR 0.6m on the measurement of securities mandatorily recognised as at fair value through profit or loss, and a net gain of EUR 4.0m on currency valuations for derivatives.

In terms of total comprehensive income, the positive impact of currency valuations on derivatives recognised in other operating income was offset by the currency valuations of non-derivative financial instruments, which resulted in a substantial loss under that item. As with the other segments, the higher contribution to the resolution fund was the main factor behind the increase in administrative expenses compared with the previous year.

Treasury & ALM impressively underlined its strong position on the capital markets with three benchmark issues (a green senior preferred benchmark bond, a mortgage-backed benchmark covered bond and a public sector benchmark covered bond). This highlights the positive perception of HYPO NOE Landesbank on the bond market and its good name among the foreign investment community.

3.7 Equity

Under Regulation (EU) No 575/2013 (Capital Requirements Regulation [CRR]) as amended, including latterly Regulation (EU) No 2022/2036, and related EBA delegated regulations, as well as Directive 2013/36/EU on access to the activity of credit institutions (Capital Requirements Directive [CRD]) as amended by Directive (EU) No 2021/338, which is currently being transposed by way of the Austrian Banking Act and various national orders, since 2014 it has been necessary to determine banks' consolidated own funds and their consolidated regulatory own funds requirements in accordance with IFRS, as well as the regulatory scope of consolidation.

Consolidated eligible capital in accordance with the CRR/CRD as amended was EUR 772.8m as at 31 December 2022 (31 Dec. 2021: EUR 729.6m).

Excess equity excluding buffers stood at EUR 471.5m as at 31 December 2022 (31 Dec. 2021: EUR 428.0m), compared with a capital requirement of EUR 301.3m (31 Dec. 2021: EUR 301.6m). The Tier 1 capital ratio in accordance with Article 92(2)(b) CRR and the total capital ratio in accordance with Article 92(2)(c) CRR were 20.52% as at 31 December 2022 (31 Dec. 2021: both ratios 19.35%).

No new or amended regulations came into force in 2022 that will affect the HYPO NOE Group's eligible capital or capital requirement. As at 31 December 2022, the Group did not make any use of transitional arrangements or exercise any elective rights under transitional arrangements.

3.8 Leverage ratio

The leverage ratio is a non-risk-based regulatory indicator intended to limit gearing. It supplements the risk-based Tier 1 and total capital ratios, and thus restricts banks' debt-financed and – from a regulatory perspective – risk-aware growth. A key control metric, the leverage ratio is reported on a quarterly basis, disclosed every half-year, and is fully integrated into the Group's planning processes.

The derogation under Article 429a(1)(n) CRR was applicable for the final time on 31 March 2022. Due to the ECB's adjustment of the framework for the TLTRO III refinancing programme, the Group made significant repayments, meaning that investments with the ECB fell accordingly. Combined with the reductions in basis adjustments on loans as a result of increased interest rates, this fully offset the effects of the removal of the derogation. In turn, and in combination with the profit for the year and consequent rise in Tier 1 capital, this led to a marked improvement in the leverage ratio.

	31 Dec. 2022	31 Dec. 2021
Tier 1 capital	772,830	729,622
Total leverage ratio exposure	15,026,265	14,940,070
Leverage ratio in accordance with Art. 92(2)(d) CRR, %	**5.14%**	**4.88%**
Leverage ratio requirement (Pillar 1)	3.00%	3.04%

3.9 Liquidity coverage ratio

The regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. Reported on a monthly basis, the LCR is integral to the Group's operational liquidity management and the planning processes.

EUR '000	31 Dec. 2022	31 Dec. 2021
Liquidity buffer	1,153	1,694
Net liquidity outflow	708	837
LCR	**162.89%**	**202.45%**

3.10 Net stable funding ratio (NSFR)

The NSFR helps to reduce dependence on short-term refinancing by safeguarding medium-to-long-term stable funding. The ratio is reported on a quarterly basis and is integrated into the Group's planning processes.

EUR '000	31 Dec. 2022	31 Dec. 2021
Stable funding requirement	10,078,814	11,179,631
Available stable funding	11,342,332	13,460,728
NSFR	**112.54%**	**120.40%**

4 HUMAN RESOURCE MANAGEMENT

The long-term success of the HYPO NOE Group is directly influenced to a large extent by the knowledge, experience, motivation and commitment of all its employees. As a result, it is essential for the Group to increase employee loyalty by creating a positive employee experience and make sure it is attractive for job applicants thanks to its strong employer brand. This is the only way that it will be in a position to overcome present and future challenges. The goal is to implement an innovative and appreciative environment that gives all employees the opportunity to live up to their full potential. To achieve this, staff are asked to give feedback every six months with a view to changing the experiences of all team members for the better.

This is why the existing human resources strategy was reappraised in 2022 as part of the corporate development process to address demographic change and the increasing demands associated with future working arrangements. The objective is to position the HYPO NOE Group as an attractive employer to ensure that the necessary skill sets are in place when they are needed.

A fair, transparent and appreciative approach to working together is an important pillar of human resources management. To help achieve this, in 2022 the Group participated in the “100% – equality pays off” advisory project, which looked closely at all aspects of gender equality before a range of measures were drawn up. A workshop to raise awareness of gender equality at the Group revealed that the topic is seen as a key success factor by staff and management alike. The Group was awarded the *Wir stellen gleich* equal opportunities quality seal, making its efforts in this area more visible.

4.1 Human resources in 2022: facts and figures

At year-end 2022 the HYPO NOE Group had 616 employees (31 Dec. 2021: 630), 27 of whom were on parental leave (31 Dec. 2021: 27). The workforce of 616 comprised 322 male and 294 female employees (31 Dec. 2021: 330 male and 300 female). In terms of full-time equivalents (FTE), there were 542.2 employees at year-end (31 Dec. 2021: 552.7). Excluding non-active employees, the headcount falls to 515.3 FTE as at 31 December 2022 (31 Dec. 2021: 522.1).

The table below shows the changes in headcount over time.

	2022							2021						
	HC			Avg. HC p.a.	FTE			HC			Avg. HC p.a.	FTE		
	Total	m	f	Total	Total	m	f	Total	m	f	Total	Total	m	f
HYPO NOE Landesbank für Niederösterreich und Wien AG	587	313	274	598.0	517.1	299.9	217.2	597	316	281	595.8	524.3	302.0	222.3
HYPO NOE Leasing GmbH	29	9	20	28.3	25.1	8.3	16.8	28	9	19	28.3	23.4	8.4	15.0
HYPO NOE First Facility GmbH	-	-	-	-	-	-	-	-	-	-	28.9	-	-	-
HYPO NOE Versicherungs-service GmbH	-	-	-	3.6	-	-	-	4	4	-	3.5	4.0	4.0	-
HYPO NOE Immobilien Beteiligungs-holding GmbH	-	-	-	-	-	-	-	1	1	-	1.0	1.0	1.0	-
HYPO NOE GROUP	**616**	**322**	**294**	**629.8**	**542.2**	**308.2**	**234.0**	**630**	**330**	**300**	**657.6**	**552.7**	**315.4**	**237.4**

Key: m = male; f = female; FTE = full time equivalent; HC = headcount;
owing to the decimal places, totals may include rounding differences

4.2 Organisational and staff development

As part of its ongoing development, the Group has conducted regular, anonymous employee surveys on a range of topics including corporate culture, job satisfaction, working conditions and transparency of communication ever since the start of the Group-wide Fokus 25 organisational development process.

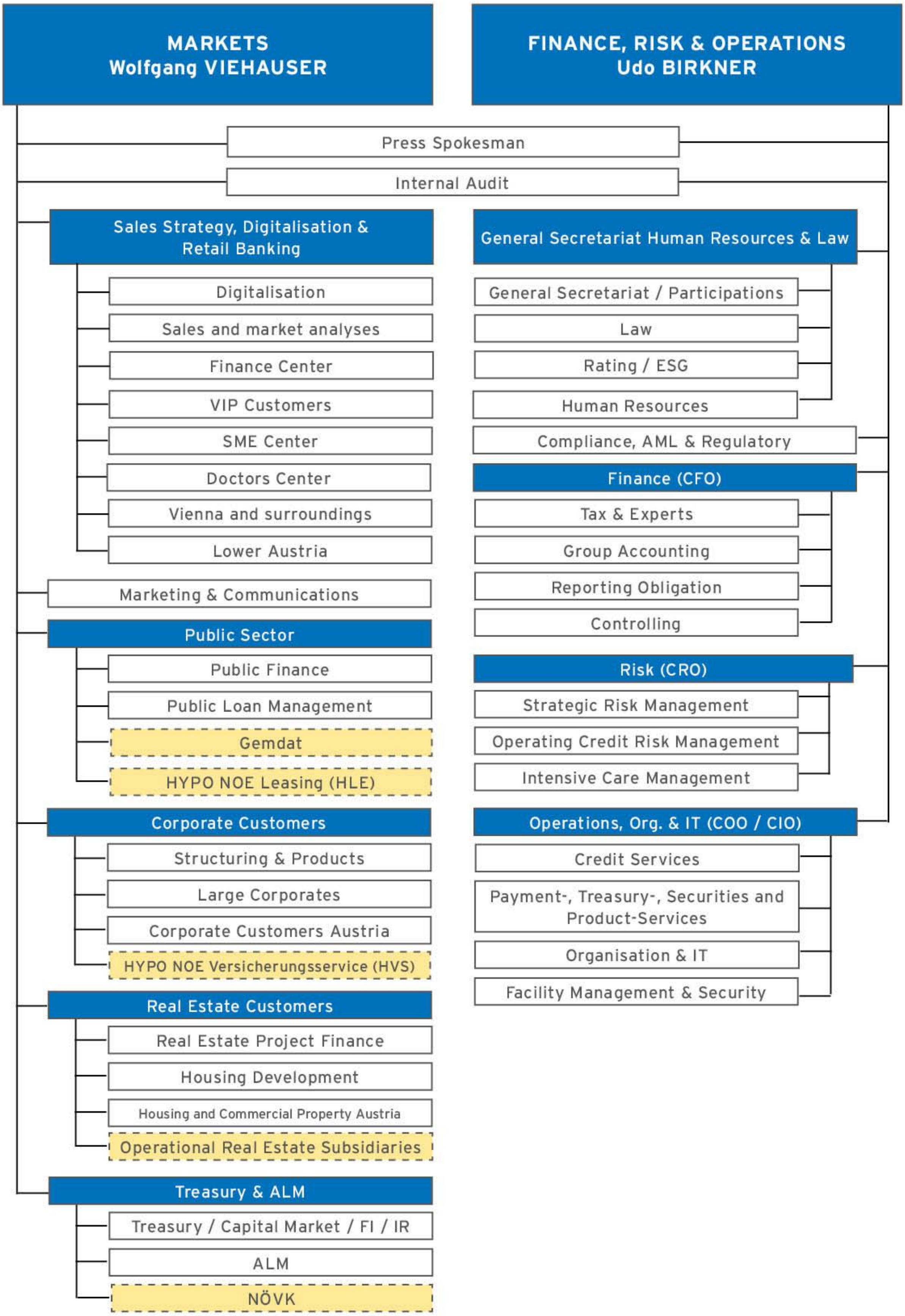
The Group's employee experience management and design initiative was successfully implemented in the 2022 financial year. Based on half-yearly feedback, the resulting employee experience index is incorporated into a balanced scorecard, as part of an ongoing project headed by the Digitalisation unit.

At the HYPO NOE Group, the concept of life stage-oriented work is all about providing the greatest possible degree of flexibility. Moving into other specialisms, reintegration following longer-term sick leave or other interruptions, as well as offering flexitime or temporary part-time working models all make it easier for employees to manage their work commitments whatever their life circumstances at the time. Cooperation within the organisation has also changed due to desk sharing and increased use of working from home models. As part of these measures, all work stations are equipped with height-adjustable desks to ensure ideal workplace ergonomics for each individual. Different workspace arrangements, such as telephone or meeting boxes and creative labs, enable employees to work undisturbed and/or collaborate with others. In autumn 2022, a new regulation was drawn up that gives employees the option of working from home 50% of the time.

Staff and managers receive regular, reasoned feedback on their development as part of the annual performance and development appraisal. Employees agree further training measures with their line manager and draw up individual staff development plans in the course of the appraisal. The development agreements indicate specific training needs, and in turn training offers suited to given target groups are developed, with an emphasis on enhancing professional expertise as well as personal development, management development and teambuilding. Introduced in 2021 to enhance the management culture and improve leadership skills, the comprehensive leadership program continued in 2022.

During the period under review, HYPO NOE Group employees completed a total of 2,749 days of training (2021: 2,400 days).

The organisational chart at 31 December 2022 was as follows:


MARKETS
Wolfgang VIEHAUSER
FINANCE, RISK & OPERATIONS
Udo BIRKNER
Press Spokesman
Internal Audit
Sales Strategy, Digitalisation & Retail Banking
Digitalisation
Sales and market analyses
Finance Center
VIP Customers
SME Center
Doctors Center
Vienna and surroundings
Lower Austria
Marketing & Communications
Public Sector
Public Finance
Public Loan Management
Gemdat
HYPO NOE Leasing (HLE)
Corporate Customers
Structuring & Products
Large Corporates
Corporate Customers Austria
HYPO NOE Versicherungsservice (HVS)
Real Estate Customers
Real Estate Project Finance
Housing Development
Housing and Commercial Property Austria
Operational Real Estate Subsidiaries
Treasury & ALM
Treasury / Capital Market / FI / IR
ALM
NÖVK
General Secretariat Human Resources & Law
General Secretariat / Participations
Law
Rating / ESG
Human Resources
Compliance, AML & Regulatory
Finance (CFO)
Tax & Experts
Group Accounting
Reporting Obligation
Controlling
Risk (CRO)
Strategic Risk Management
Operating Credit Risk Management
Intensive Care Management
Operations, Org. & IT (COO / CIO)
Credit Services
Payment-, Treasury-, Securities and Product-Services
Organisation & IT
Facility Management & Security

4.3 Human Resources Department's sustainability mission

HYPO NOE sees itself as an attractive employer which is synonymous with sustainability, an outstanding work-life balance and excellent development opportunities. With this as the starting point, various initiatives have been drawn up to reflect the Group's ethos.

The company's frauen@hyponoe.at women's network is committed to bringing more women into leadership positions. In addition to regular opportunities to compare notes, networking events centring on best practice and event-related measures, the next step will be to set up and establish a women's mentoring programme at HYPO NOE. Implementation and achievement of the objectives is monitored in an annual external audit conducted as part of the company's *berufundfamilie* (Career and Family) certification.

The Group uses a variety of measures to counter the risk of stress and overwork. The MAVIE (formerly Consentiv) health platform, which is available to all employees free of charge, provides individual counselling and coaching for challenging life situations – anonymously and at any time of day or night.

Training sessions focusing on mindful life design and developing resilience were offered with Dr. Georg Wögerbauer as part of the Group's workplace health promotion programme. HYPO NOE is a strong believer in giving employees a high degree of personal responsibility, offering a breathing training workshop in autumn as part of its work in this area. This was followed by smoking cessation assistance and the "From Difficulty to Effortlessness" workshop. The social aspect of HYPO NOE's management approach is clearly identifiable – the focus is on the individual.

5 RISK REPORT

Descriptions of the objectives and methods of risk management, and details of material risks are contained in Note 8 RISK MANAGEMENT of the notes to the consolidated financial statements.

6 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. The Group constantly invests in innovation and fine-tuning, in line with its guiding principle of offering customers continuous improvements in all lines of business and in product quality.

7 EQUITY INVESTMENTS AND BRANCH OFFICES

The HYPO NOE Group holds investments that underpin its strategy. The Group only enters into such investments if they are compatible with its primary business objectives. In line with its role as a shareholder representative, the Group promotes, guides and supports investees' strategic business development. Details of changes in the scope of consolidation can be found under Note 10.1 Scope of consolidation.

HYPO NOE Landesbank has operated a branch office at Wipplingerstrasse 4, 1010 Vienna since 2008.

HYPO NOE Landesbank had 27 branches in Lower Austria and Vienna as at 31 December 2022.

8 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (ICS)

The main features of the Group's internal control and risk management systems, and their significance for the accounting process, are outlined below.

8.1 Control environment

The HYPO NOE Group Management Board is responsible for the design, implementation and refinement of an internal control system focused on Group accounting processes. The Board ensures that Company-wide monitoring of the ICS takes place by creating the necessary organisational structures (assignment of responsibilities, creation of appropriate information systems, etc.).

The Group Accounting Department at HYPO NOE Landesbank is responsible for all accounting matters and for issuing instructions in order to ensure compliance with Group-wide standards. Directives have been drawn up to assist it in performing its duties.

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 protection of the assets, finances and earnings of the HYPO NOE Group, as well as the accuracy of financial reporting.

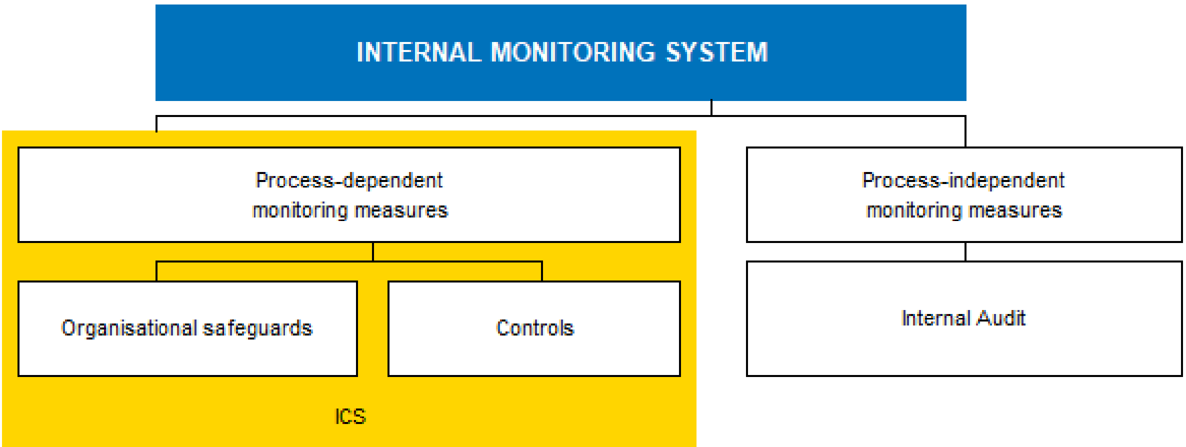
8.2 Risk assessment

The accounting process can give rise to the following key risks:

- Unintentional errors or fraud
- The accounts do not present a true and fair picture of assets, finances and earnings that reflects actual circumstances. This is the case when the financial statements contain figures or disclosures that deviate materially from the correct information.
- Material errors when making estimates and exercising judgement

8.3 Control measures

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



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, for example:

- Signature regulations, decision-making authorities
- Role and permission systems in IT applications
- Business continuity management
- Daily, weekly and monthly reports
- Preparation and periodic updating of documentation (manuals, guidelines, work instructions)

With regard to the ICS, **controls** are periodic or ongoing checks that are directly or indirectly integrated into the processes being monitored. They are designed to safeguard the quality of the process outcomes by ensuring early identification and prevention of deviations.

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

The following primary control measures are carried out:

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

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

The ICS encompasses accounting-related instructions and processes aimed at correct and appropriate recording of events with regard to the following:

- Employment of the Group's assets
- Recording all information required to draw up the annual financial statements, in order to prevent unauthorised purchases and sales
- Risk-based decision-making authorities and monitoring instruments which could have a material impact on the annual financial statements

- Tailoring the chart of accounts to the Group's specific requirements
- Storage of vouchers according to systematic and chronological criteria, providing an adequate audit trail
- Documentation of processes involved in the preparation of the separate parent entity and consolidated financial statements, and the parent entity and Group operational and financial reviews, as well as the related risks and controls
- Sufficient numbers of suitably qualified staff in departments involved in the accounting process; standardised training and development programmes to ensure that employees have the necessary skills for their roles; senior executives serving as role models in terms of integrity and ethical standards is the foundation of the control system
- Clear demarcation of the main functions involved in the accounting process and their management as separate departments
- Unambiguous assignment of departmental responsibilities
- Protection of computer systems against unauthorised access by means of appropriate control mechanisms
- Auditing of accounting data for their completeness and correctness on a sample basis
- Checks of all data-entry processes related to accounting in accordance with the four-eye principle; checks are carried out by Group Accounting, or by trained staff in the various operational departments, in accordance with internal regulations.
- Daily or monthly plausibility checks and preparation of trial balances for posting lists, revenue reports, valuation lists and lists of Banking Act/Capital Requirements Directive IV requirements, etc. provided by the computer centre, which subjects them to automated checks
- IT security checks as one of the cornerstones of the internal control system; firewalling of sensitive activities by taking a restrictive approach to IT authorisations

8.4 Information and communication

The following financial reports are published in fulfilment of the monitoring and control functions, and to ensure that accounting and reporting are in line with the relevant standards:

- Annual report, interim consolidated financial statements in accordance with IAS 34, and quarterly results announcements
- Monthly and quarterly reports to the Management Board and the Supervisory Board (segment information, budget/actual comparisons)
- Periodic reporting to the OeNB in accordance with the statutory reporting requirements for banks; forwarding of reports via the central Allgemeines Rechenzentrum IT system, and checking and correction of any errors by the finance units

8.5 Monitoring

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

As part of the process-independent measures, internal auditing is clearly distinct from the ICS. All internal audit activities are subject to Group-wide standards based primarily on the Austrian Banking Act, the current FMA Minimum Standards for Internal Auditing as amended and international best practice. The independent Internal Audit Department regularly reviews compliance by the various departments and other organisational units with the internal and external regulations. In 2022, the audits carried out in Accounting/Group Accounting focused on processes/ICS, clearing and ledger accounts in branch operations (as an integral component of branch auditing) and reporting.

The Supervisory Board Audit Committee exercises its oversight function by holding regular discussions on the current status and effectiveness of the ICS.

The ICS ensures the proper recording, processing and documentation of all transactions. It also makes sure that assets and liabilities in the annual financial statements are recognised, reported and measured in accordance with the applicable legal and regulatory requirements.

The ICS is regularly adapted in line with changed circumstances and requirements. Like any control system, however well it is designed, operated and monitored, the internal accounting control system can only provide adequate and not absolute assurance that the figures reported are accurate. 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 enhancing the effectiveness and efficiency of operational processes, minimising operational risk by making improvements to those processes, and refining the ICS.

9 GROUP NON-FINANCIAL STATEMENT

Pursuant to section 267a Austrian Business Code, the HYPO NOE Group is obliged to prepare a consolidated non-financial statement. Under section 243b Austrian Business Code, the parent company HYPO NOE Landesbank für Niederösterreich und Wien AG is also required to prepare such a statement. The non-financial statement was prepared in accordance with the Austrian *Nachhaltigkeits- und Diversitätsverbesserungsgesetz* (Sustainability and Diversity Improvement Act; section 267a of the Austrian Business Code). The HYPO NOE Group has published an additional sustainability supplement drawn up with reference to the GRI Standards since 2014. A copy of the supplement and other related information can be found on the HYPO NOE website.

The following non-financial statement provides information necessary for understanding the Group's course of business, earnings, position and the effects of its operations, as well as information connected with the environment, social and employee-related matters, respect for human rights and combating corruption and bribery. The topics addressed below were selected on the basis of the materiality analysis performed for the first time in the 2014 sustainability report and reassessed in 2018. A double materiality analysis was carried out in 2022, using internal and external sources. Supplementary information can be found elsewhere in this annual report.

9.1 Description of the business model

HYPO NOE Landesbank is the largest and oldest-established Austrian state mortgage bank[2], and has been a reliable commercial bank, stable state bank and specialist mortgage lender for over 130 years. The Bank operates primarily in Austria and Germany, as well as in selected markets elsewhere in the European Union, using its strong position in Lower Austria and Vienna as a springboard.

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

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

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

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

9.2 Sustainability in the Group's core business

The HYPO NOE Group has implemented clear ethics guidelines and business principles for its financing activities. In this way, the Bank makes every effort to ensure that loans are extended for purposes that are consonant with high social and environmental standards. For financial services providers, the environmental and social effects of their business operations (financing and investment) give rise to both risks and opportunities.

Inclusion criteria enshrined in the ethical guidelines and business principles are intended to promote business activities in areas that the Group believes generate the largest benefits for society, while exclusion criteria help to identify sectors

2 In terms of total assets (2021 consolidated financial statements) and date of establishment

where the Bank chooses not to operate, in the interest of social responsibility. These guidelines, which also form part of the Group's credit risk management manual, can be found on the HYPO NOE website.

Sustainability criteria are documented in the core banking system as part of the lending process. This information enables the HYPO NOE Group to identify which loans have a sustainability element to them. The eligibility of a project for financing from the green bond proceeds is assessed on the basis of the HYPO NOE Group's Green Bond Framework.[3]

9.2.1 Products and services

The Group concentrates on four business segments that play to its core competences: Public Sector, Real Estate, Retail and Corporate Customers, and Treasury & ALM. Working in collaboration with HYPO NOE Leasing, the Group predominantly serves large state and local government clients.

A key milestone came in 2020 with the issue of HYPO NOE Landesbank's first green bond, worth EUR 500m. This was the first green bond to be certified in accordance with Austria's UZ 49 standard for sustainable financial products. The second Green Bond was successfully issued in 2022

The proceeds will be used to finance and refinance green buildings that rank among the top 15% in Austria in terms of carbon efficiency. The focus is on non-profit housing and social infrastructure – HYPO NOE Landesbank's core business. The strong sustainability-related performance of the Bank and its Green Bond Framework has been confirmed in a second-party opinion (SPO) from ISS ESG (formerly oekom research).

In 2021, the HYPO NOE Group launched its green current and savings accounts for retail customers, which are likewise certified in accordance with the Austrian UZ 49 ecolabel for sustainable financial products. Deposits in green current and savings accounts are earmarked for financing of sustainable energy and municipal infrastructure projects, or projects designed to combat climate change. The disclosures are published on the HYPO NOE Group website at ir.hyponoe.at/en/. The green mortgage is available to retail customers looking to buy, build or renovate property, provided that their project meets specific energy efficiency targets. In addition to enjoying the sustainability and energy efficiency gains associated with their projects, customers can also expect to pay lower contract fees for their mortgage agreement, if any.

The HYPO NOE Group's customers have had access to its green investment loan since 2022. The financed investments must meet either the HYPO NOE Group's Green Bond Framework or the technical screening criteria of the EU taxonomy for sustainable activities.

9.2.2 Partners and sustainable investments

With regard to sustainable investment, the HYPO NOE Group offers corresponding products offered by numerous providers that enable it to offer environmentally sound and ethical investments in selected funds. The Group has organised a series of training courses and product information events, in order to make sustainable investment opportunities more accessible to a wider audience. Securities and insurance officers further deepened their expertise by participating in the EFPA ESG Advisor® certification scheme. Investments in sustainable funds managed for clients exceeded EUR 70.8m at the end of 2022.

9.2.3 Assessment of eligibility for the EU taxonomy

The Taxonomy Regulation is the first EU-wide uniform classification system to establish a list of environmentally sustainable economic activities that is binding for all companies with non-financial reporting obligations under Directive 2014/95/EU. It sets out the criteria which can be used to establish whether an economic activity reaches a level of environmental performance that qualifies as environmentally sustainable.

The HYPO NOE Group assessed its entire loan and securities portfolio on the assets side to determine which financing can be allocated to the supercategories in accordance with the Commission Delegated Regulation supplementing Regulation (EU) 2020/852 (Taxonomy Regulation). Financing activity and, in turn, the allocation of funds was a central element of this assessment. When monitoring for Taxonomy eligibility, it must be determined whether a financing activity

3 The Green Bond Framework can be found on the HYPO NOE website.

is in principle covered by the economic activities defined in the EU Delegated Regulation and, accordingly, has the potential to qualify as an economically sustainable activity.

Statutory disclosures

In accordance with Article 10(3) of Commission Delegated Regulation (EU) 2021/2178 on Article 8 of the Taxonomy Regulation (EU) 2020/852, financial market participants must disclose information for 2022 regarding the first two environmental objectives of the Taxonomy Regulation. These are the following key performance indicators:

- The proportion in their total assets of exposures to Taxonomy non-eligible and Taxonomy-eligible economic activities,
- The proportion in their total assets of exposures to companies not subject to the Non-Financial Reporting Directive (NFRD),
- The proportion in their total assets of exposures to central governments, central banks, supranational issuers and derivatives, and
- The proportion of their trading portfolio and on-demand interbank loans in their total assets.

In the course of determining Taxonomy eligibility, for corporate financing (incl. real estate financing) it was firstly ascertained which borrowers are obliged to make NFRD disclosures by appraising the criteria for large companies that also meet the definition of public-interest entities and employ more than 500 employees on an annual average as at the end of a given reporting period.

In a second step, the published CapEx and revenue key figures were evaluated to determine the Taxonomy-eligible share of the corporate financings concerned.

In addition, in accordance with Annex V to Commission Delegated Regulation (EU) 2021/2178, financing for public housing and other specialised lending to public authorities, provided that they relate to Taxonomy-eligible economic activities, were identified by determining the purpose of financing, and also classified as Taxonomy-eligible.

For retail customers, loans for residential real estate or home renovation as well as housing subsidy loans were defined as Taxonomy-eligible products. The identification of the relevant positions was based on clearly assignable account groups and types.

In determining the Taxonomy eligibility of exposures within the scope of statutory disclosure, exposures to NFRD disclosing entities were considered weighted by the CapEx and revenue ratios published by the counterparties. In the case of exposures that are not subject to NFRD disclosure obligations, residential real estate financing to retail customers as well as financing to public authorities and municipalities for public housing and water and wastewater supply were identified as Taxonomy-eligible, taking into account the criteria pursuant to Annex V to Commission Delegated Regulation (EU) 2021/2178, and also included in the statutory disclosures. The process of analysis produced the following results, based on the Group's total assets:

- CapEx: Taxonomy-eligible 14.98% (2021: 12.96%*), Taxonomy non-eligible 85.02% (2021: 87.04%)
- Revenue: Taxonomy-eligible 14.95% (2021: 12.93%*), Taxonomy non-eligible 85.05% (2021: 87.07%)

*The previous year's values were calculated using an adjusted method and as such are not comparable with the figures presented in the 2021 Annual Report.

A list of the additional disclosures required under the Commission Delegated Regulation supplementing the Taxonomy Regulation, with values stated as a percentage of total consolidated assets, is provided below:

Article 10(3)

- Item: trading portfolio – share 0.00% (31 Dec. 2021: 0.00%*)
- Item: on-demand interbank loans – share 0.04% (31 Dec. 2021: 0.04%*)
- Exposures to central governments: share 3.28% (31 Dec. 2021: 3.61%*)
- Exposures to central banks: share 1.07% (31 Dec. 2021: 8.30%*)
- Exposures to supranational issuers: share 0.43% (31 Dec. 2021: 0.36%*)
- Derivatives: share 1.59% (31 Dec. 2021: 2.77%*)
- Exposures to undertakings that are not obliged to publish non-financial information: share 46.29% (31 Dec. 2021: 35.49%*)

*The previous year's values were calculated using an adjusted method and as such are not comparable with the figures presented in the 2021 Annual Report.

The HYPO NOE Group operates a small trading book in accordance with Article 94 CRR II. No transactions were concluded in the small trading book in 2022, meaning that no disclosures could be made regarding adjustments to assets held for trading in accordance with Annex XI of the EU Delegated Regulation supplementing the Taxonomy Regulation ([EU] 2020/852).

Voluntary disclosures

In line with the HYPO NOE Group's business model, approximately two-thirds of the loan portfolio consists of real estate financing that can be allocated to the Taxonomy criteria. Since most of these borrowers are not large customers subject to obligations under the NFRD, these exposures are not covered by the statutory disclosure requirements. Therefore, the HYPO NOE Group has decided to voluntarily disclose the Taxonomy eligibility of the financing concerned. This measure is intended to show the actual potential of the loan portfolio in terms of financing environmentally sustainable economic activities.

To determine the actual financing activity for the various exposures, the HYPO NOE Group can draw on information that was collected as part of the review of loans in terms of eligibility for financing from the green bond proceeds. During this process, the purpose of financing extended for the items assessed was recorded at account level in the core banking system in the form of sustainability categories, which show the actual use of funds. The following step-by-step procedure was used for these evaluations:

- Portfolio or sub-portfolio analysis according to account groups and types
- Case-by-case analysis of financing descriptions assessable within the system
- Manual case-by-case assessment based on financing information from the loan application

Categorisation of financing purposes is checked regularly and adapted to reflect current information. Eligibility under the Taxonomy is then assessed by mapping the financing purpose onto the supercategories specified in the EU Delegated Regulation.

The process of analysis produced the following cumulative results from statutory and voluntary disclosures, based on the Group's total assets:

- CapEx: Taxonomy-eligible 57.33% (2021: 51.64*), Taxonomy non-eligible 42.67% (2021: 48.36%*)
- Revenue: Taxonomy-eligible 57.30% (2021: 51.61%*), Taxonomy non-eligible 42.70% (2021: 48.39%*)

*The previous year's values were calculated using an adjusted method and as such are not comparable with the figures presented in the 2021 Annual Report.

The HYPO NOE Group is committed to providing the necessary human resources, technical know-how and sustainability information to enable it to meet future regulatory and internal requirements for the identification and assessment of environmentally sustainable economic activities.

9.3 Environment

As the bank for the state of Lower Austria and one of Austria’s leading businesses, the HYPO NOE Group has a responsibility to finance investments in climate protection and to play a pioneering role in terms of the environmental impact of its operations. Therefore, the HYPO NOE Group presents its environmental footprint transparently and puts targeted measures in place to reduce it. Building infrastructure management and employees’ use of transport for work have the most significant environmental effect.

The Bank is well aware that it is potentially contributing to climate change and is therefore taking extensive action so that it can live up to its environmental responsibilities.

In order to reaffirm its dedication to meeting domestic and international climate goals, in 2018 the Group finalised its environmental and climate strategy (that builds on the current energy strategy) under which it commits to achieving specific and ambitious targets. Introduction of an ISO 14001-compliant environmental management system was part of this strategy. Re-certification was obtained in 2022.

In a clear indication of its commitment to meeting its environmental and climate goals, HYPO NOE Landesbank elected to sign up to the Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology (BMK) klimaaktiv 2030 Pakt initiative. Conducted in 2022 by experts within the partnership, the annual external review confirmed the positive progress made towards achieving the goals of the initiative.

9.3.1 Focus on energy efficiency

HYPO NOE’s St. Pölten headquarters was built in accordance with the klimaaktiv silver building standard with a strong focus on energy efficiency. As a case in point, part of the building’s electricity demand is met with green power generated by its own solar array. Extended in 2022, the system produced over 80,000 KWh of zero-emission power in the reporting period. The Group's innovative, low-energy head office received the klimaaktiv silver award in 2012, as well as Green Building certification from the EU. Like all of the HYPO NOE Group's offices and branches, the headquarters only uses renewable electricity. In 2021, the building was also certified as a Green Event Location by the Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology, in accordance with the Austrian UZ200 eco-label.

HYPO NOE Landesbank's commitment to protecting the environment has also been recognised in the form of Quality Austria certification for successful implementation of the ISO 14001 standard.

9.3.2 Climate-friendly mobility

Reducing emissions from transportation is one of the cornerstones of the HYPO NOE Group's environment and climate strategy. Inspired by the goal of creating the "vehicle fleet of the future", the HYPO NOE Group slashed CO_2 emissions from passenger vehicle transport by more than 80% between 2015 and 2022. The number of company cars in the Group fleet was cut by more than 80% over the same period. The car policy specifically promotes the acquisition of low-emission company cars, sending out a clear signal with strict CO_2 limits. The number of e-vehicles in the fleet – currently six (not including an additional five hybrid cars) – will also be increased.

In 2017, the first five rapid-charging stations were installed at the St. Pölten headquarters, as well as a charging station for guests at events and customers to use free of charge. The number of charging stations was increased to 16 in 2021. All e-vehicle charging points are free for employees to use, both for company and private vehicles.

An employee survey on mobility behaviour was conducted in 2022. The results form the basis of a joined-up blueprint designed to encourage climate-friendly mobility choices. The focus is on both mobility at work and travel to and from the workplace.

Employees have been offered the opportunity to work from home for years. Internal and external appointments can be conducted as video calls and telephone conferences.

9.4 Social and employee-related matters

In its role as the bank for Lower Austria, the HYPO NOE Group sees itself as a partner to people in the region. And in order to serve as a reliable partner to its external stakeholders, the Group capitalises on its most important resource: its employees.

The company has conducted regular, anonymous employee surveys on a range of topics including corporate culture, job satisfaction, working conditions and transparency of communication ever since the start of the Group-wide Fokus 25 organisational development process. Managers participate in regular 360° feedback sessions. The human resources strategy was expanded in 2022 as part of the corporate development process to address demographic change and the increasing demands associated with future working arrangements. Employee experience management and design has already been successfully implemented with the aim of creating an innovative and appreciative environment that gives all employees the opportunity to realise their full potential. Staff members are asked to give feedback every six months with a view to changing the experiences of all staff members for the better. The resulting Employee Experience Index will be incorporated into a balanced scorecard, which is currently being developed by the Digitalisation unit in a Group-wide project.

The objective of the HR strategy approved by the Management Board in 2022 is to position the HYPO NOE Group as an attractive employer to ensure that the appropriate skill sets are in place when they are needed. Specifically, the HYPO NOE Group is synonymous with sustainability, an outstanding work-life balance and excellent development opportunities. The company's frauen@hyponoe.at women's network is committed to bringing more women into leadership positions. In addition to regular opportunities to compare notes, networking events centring on female role models and event-related measures, the next step will be to set up a women's mentoring programme. Implementation and achievement of the objectives is monitored in an annual external audit conducted as part of the company's *berufundfamilie* (Career and Family) certification.

9.4.1 Principles and guidelines for equitable collaboration

The HYPO NOE Group's market conduct and its dealings with customers and employees are governed by its code of conduct. The Group is also committed to complying with the International Labour Organisation's (ILO) international labour standards.

Active and constructive cooperation with the works council, and observing the rights of employees and trade unions are a matter of course at the Group.

HYPO NOE Landesbank is a member of the Diversity Charter initiative, which is designed to promote respect for all members of society, regardless of gender, age, background, sexual identity, outlook or disability. At the HYPO NOE Group, diversity is seen as a source of enrichment, and discrimination has no place.

In 2022, the HYPO NOE Group took part in the government-funded "100 per cent – equality pays off" advisory programme in which the employees responsible focused closely on all aspects of equality and developed measures to achieve the Group's goals in this area. A workshop to raise awareness of gender equality at the Group revealed that the topic is seen as a key success factor by staff and management alike. HYPO NOE Landesbank was awarded the *Wir stellen gleich* equal opportunities quality seal, making its efforts in this area more visible.

9.4.2 Training, further education and development opportunities

Staff and managers receive regular, reasoned feedback on their development as part of the performance and development appraisal. Employees agree further training measures with their line manager and draw up individual staff development plans in the course of the appraisal.

In 2022, HYPO NOE Group employees completed a total of 2,774 days of training (2021: 2,600 days).

Staff training and development is a leading priority for the Group, with an emphasis on enhancing professional expertise as well as personal development, management development and teambuilding. Introduced in 2021 to enhance the management culture and improve leadership skills, the comprehensive leadership program continued in 2022.

At the HYPO NOE Group, the concept of life stage-oriented work is all about providing the greatest possible degree of flexibility. Moving into other specialisms, reintegration following longer-term sick leave or other interruptions, as well as offering flexitime or temporary part-time working models all make it easier for employees to manage their work commitments whatever their life circumstances at the time.

9.4.3 Health management

As a responsible employer, the HYPO NOE Group pays particularly close attention to safeguarding the health and wellbeing of its employees. The Group is committed to building a positive, respectful and appreciative work climate that combines a high degree of personal responsibility with creativity and flexibility. In this regard, the focus is on training and development, workplace health promotion, maintaining an appropriate work-life balance and securing jobs.

A survey on stress in the workplace and on working from home was conducted in 2021. The findings were used to draw up a desk sharing plan that was implemented in autumn 2021. All work stations are equipped with height-adjustable desks to ensure ideal workplace ergonomics for each individual. Different workspace arrangements, such as telephone or meeting boxes and creative labs, enable employees to work undisturbed and/or collaborate with others.

The Group uses a variety of measures to counter the risk of stress and overwork. The MAVIE (formerly Consentiv) health platform, which is available to all employees free of charge, provides individual counselling and coaching for challenging life situations – anonymously and at any time of day or night.

Training sessions focusing on mindful life design and developing resilience were offered with Dr. Georg Wögerbauer as part of the Group's workplace health promotion programme. The HYPO NOE Group is a strong believer in giving employees a high degree of personal responsibility, offering a breathing training workshop in autumn under its work in this area. This was followed by smoking cessation assistance and the "From Difficulty to Effortlessness" workshop.

9.4.4 Disabled accessibility/access to financial services

In terms of disabled accessibility, the HYPO NOE Group strives to provide safe and secure access so that all customers can take care of their financial affairs, and to prevent discrimination against people with disabilities. To this end, an action plan was prepared for measures to be implemented in the Bank's branches. All branches had been made wheelchair-accessible by the end of 2017. The HYPO NOE website has also been given an accessible design.

9.5 Respecting human rights

As a responsible corporate citizen, the HYPO NOE Group sees upholding human rights as a core element of its philosophy.

Taking the possibility that its business activities might harm human rights as its point of departure, the HYPO NOE Group scrutinises all of its business dealings for compliance with applicable laws, regulations and external and internal guidelines, as well as its internal ethical guidelines and business principles. No breaches of such laws, regulations or guidelines were identified during the reporting period.

The HYPO NOE Group is committed to observing and complying with the applicable laws and regulations in all of the countries in which it does business, as well as in those countries in which its customers are based.

The Group does not conduct any business or projects that involve forced labour (including bonded labour) or child labour. Nor does it take part in any activities that contravene

- the European Convention on Human Rights;
- the statutory labour-related and social obligations of the country concerned (ILO);
- the applicable regulations put in place by international organisations, or the relevant UN conventions;
- or the rights of the local population or minorities.

When it comes to protecting customer data and safeguarding privacy, the HYPO NOE Group takes its commitments extremely seriously. Compliance with applicable data protection legislation (the EU General Data Protection Regulation [GDPR]) is the overriding priority. No official sanctions were imposed on the Group in this respect during the reporting period.

The Group has established an internal feedback and complaints database, into which staff must enter all customer complaints. These are analysed on a regular basis, included in the ombudsman's report, which is submitted to the Supervisory Board, and evaluated for relevance to compliance issues. This approach helps to minimise the risk of compromising customer privacy as far as possible. There were no significant complaints or breaches related to the handling of customer data in 2022.

9.6 Compliance and anti-corruption

For the entire Group, adhering to compliance regulations, conducting business ethically and preventing corruption are crucial for effective business operations.

The HYPO NOE Group recognises the negative impacts of corruption and bribery on business activities as a material risk, and has implemented corresponding anti-corruption measures to guard against these in its operations.

Measures to ensure that all staff act with integrity are backed up by internal regulations, which provide a clear overview of the legal requirements. All employees of subsidiaries and investments in which the Group holds a stake of over 50% are considered officials within the meaning of the anti-corruption legislation and are subject to strict statutory anti-corruption regulations.

9.6.1 Organisational structure

The permanent functions of General & WAG Compliance, Prevention of Money Laundering Compliance and Regulatory Compliance report directly to the Group Management Board.

9.6.2 Internal compliance codes

Internal compliance policies are regularly reviewed and updated, and apply to the entire Group where necessary. In particular, new regulations and legislative changes are incorporated into the existing guidance and communicated to staff in a timely manner. The following key compliance rules and guidelines are in place at present:

- Compliance Manual: standard regulations covering all central compliance topics
- Manual for Prevention of Money Laundering and Terrorism Financing: standard regulations for all processes and measures, including those to prevent money laundering and financing of terrorism
- Sanction Policy: provides an explanation of current international sanctions and clearly describes the Group's policy in this respect
- New product introduction processes: conflicts of interest policy, which covers the subject of securities donations and granting and accepting benefits in accordance with the new *Wertpapieraufsichtsgesetz* (Securities Supervision Act) 2018.
- Anti-corruption guidelines
- Investment Advice and Rules of Conduct Manual: provides guidance regarding the obligation to act in the best interests of the customer in connection with securities services, among other matters

9.6.3 Raising awareness within the Group

The Group has adopted a separate set of internal anti-corruption guidelines which form an integral part of its compliance rules. New employees are obliged to complete an online compliance and anti-money-laundering training course within four weeks of joining the Group. New staff also receive in-person training as part of their induction. Existing employees are required to take web-based refresher tests at regular intervals. Anti-corruption forms part of the Group’s compliance training. In 2022 all HYPO NOE Landesbank employees participated in mandatory compliance courses (annual refresher courses). These are intended to raise staff awareness of General Compliance and Prevention of Money Laundering Compliance, with the goal of minimising the risk of breaches of statutory requirements or internal standards. There were no serious compliance-related violations during the reporting period.

The Bank also supports international anti-corruption and anti-bribery initiatives, reinforcing its position that the Group will not tolerate such activity in any form. Inappropriate gifts or favours must not be given or received as part of any working relationship, and the anti-corruption rules apply at all times.

The relevant internal processes must be kept up to date at all times and are optimised on an ongoing basis. Any amendments are implemented as quickly as possible. Under these processes, all invitations to third-party events must be registered on the HYPO NOE Compliance Portal and added to the internal event schedule. Compliance is determined using a defined traffic light system. There were no confirmed incidents of corruption in 2022.

9.7 Management of sustainability risks

In addition to clearly stating its desire to make a meaningful contribution to achieving climate targets, HYPO NOE Landesbank is also committed to ensuring that its infrastructure, loan portfolio and refinancing strategy are climate resilient. Appropriate consideration of sustainability risks as part of the risk management strategy is an essential part of this.

HYPO NOE Landesbank has proactively added the sustainability risks that it has identified to the risk inventory, risk map and the relevant risk documentation. In addition, the loan portfolio was subjected to screening to determine how much of the aggregate lending exposure is related to particularly CO_2-intensive industries and has a correspondingly high sustainability risk as a result.

Clear exclusion, positive and negative criteria mitigate sustainability risks associated with lending. Taking physical and transitory sustainability risks into account in the lending process has already been implemented as part of the strategy for identifying, measuring, evaluating and managing sustainability risks. In addition, negative impacts of extreme weather events are analysed as part of the annual Bank-wide stress test. As part of the lending process, details of current or potential environmental, social and corporate governance-related risks are collected and documented using an ESG and reputational risk questionnaire.

Indicator/description	Unit	2022	2021	2020	2019
HYPO NOE GROUP					
ENVIRONMENTAL INDICATORS – carbon footprint[1]					
Material consumption (paper)[2]	kg CO_2-e	9,334	8,527	16,060	17,064
Electricity[3]	kg CO_2-e	-	-	-	-
District heating	kg CO_2-e	92,331	172,972	129,762	174,233
Gas heating	kg CO_2-e	108,308	88,019	93,835	106,198
Passenger vehicle transport – total	kg CO_2-e	87,616	84,417	165,822	280,456
Flights	kg CO_2-e	12,194	4,963	1,269	26,983
Rail		259	141	326	1,335
Total CO_2-e[4]	**kg CO_2-e**	**310,042**	**359,039**	**407,075**	**606,269**
CO2-e/employee[5]	**kg CO_2-e**	**503**	**567**	**570**	**817**

[1]Due to Covid-19 there are variances in both environmental and human resources indicators for 2020 and 2021
[2]Increase attributable to more precise invoicing in 2019
[3]Renewable electricity at all locations since 2016, therefore no CO_2 emissions recognised.
[4]Accuracy of vehicle transport calculations improved in 2020.
[5]Scope 1-3
Source: CO_2-e conversion factors – source: DEFRA

Group CO_2 data by scope					
SCOPE 1: Heating energy (gas) and vehicle fleet	kg CO_2-e	195,924	172,435	259,657	386,654
SCOPE 2: Electricity and heating energy (district heating)	kg CO_2-e	92,331	172,972	129,762	174,233
SCOPE 3: Flights, rail and paper	kg CO_2-e	21,787	13,632	17,656	45,382

Indicator/description	Unit	31 Dec. 2022	31 Dec. 2021	31 Dec. 2020	31 Dec. 2019
HUMAN RESOURCE INDICATORS					
Total employees	Head count	616	630	714	742
Female	Head count	294	300	307	317
Male	Head count	322	330	407	425
Managers by level					
Management Board	Head count	2	2	2	2
Management level 1	Head count	9	10	11	10
Management level 2	Head count	20	19	17	17
Management level 3	Head count	40	46	45	45
Proportion of women on the Management Board	%	0%	0%	0%	0%
Proportion of women on the Supervisory Board	%	33%	33%	33%	25%
Management Board, over 50 years old	%	100%	100%	100%	100%
Supervisory Board, 30-50 years old	Head count	2	2	4	3
	%	17%	17%	33%	25%
Supervisory Board, over 50 years old	Head count	10	10	8	9
	%	83%	83%	67%	75%

Indicator/description	Unit	31 Dec. 2022	31 Dec. 2021	31 Dec. 2020	31 Dec. 2019
Employment breakdown (excl. employees on parental leave)					
Full-time employees	Head count	417	428	513	523
Female	Head count	130	130	143	140
Male	Head count	287	298	370	383
Part-time employees	Head count	172	175	175	179
Female	Head count	141	145	139	141
Male	Head count	31	30	36	38

Employees by category (excluding parental leave)					
Managers	Head count	70	77	75	74
	%	12%	13%	11%	11%
Female	Head count	11	12	11	14
	%	16%	16%	15%	19%
Male	Head count	59	65	64	60
	%	84%	84%	85%	81%
Managers under 30 years old	Head count	-	-	-	-
	%	0%	0%	0%	0%
Managers 30-50 years old	Head count	40	47	50	51
	%	57%	61%	67%	69%
Managers over 50 years old	Head count	30	30	25	23
	%	43%	39%	33%	31%

Employees	Head count	519	526	613	628
	%	88%	87%	89%	89%
Female	Head count	260	263	271	267
	%	50%	50%	44%	43%
Male	Head count	259	263	342	361
	%	50%	50%	56%	57%
Under 30 years old	Head count	82	85	104	86
	%	16%	16%	17%	14%
Employees, 30-50 years old	Head count	294	298	351	378
	%	57%	57%	57%	60%
Over 50 years	Head count	143	143	158	164
	%	28%	27%	26%	26%

Indicator/description	Unit	31 Dec. 2022	31 Dec. 2021	31 Dec. 2020	31 Dec. 2019
New employees and staff turnover					
New employees	Head count	65	53	110	102
	%	12%	8%	18%	16%
Female	Head count	29	27	37	43
	%	45%	51%	34%	42%
Male	Head count	36	26	73	59
	%	55%	49%	66%	58%
Under 30 years old	Head count	37	26	57	43
	%	57%	49%	52%	42%
30-50 years old	Head count	24	22	44	49
	%	37%	42%	40%	48%
Over 50 years old	Head count	4	5	9	10
	%	6%	9%	8%	10%

Disposals	Head count	71	52	134	153
	%	10%	7%	16%	17%
Female	Head count	33	23	43	66
	%	46%	44%	32%	43%
Male	Head count	38	29	91	87
	%	54%	56%	68%	57%
Under 30 years old	Head count	26	18	33	37
	%	37%	35%	25%	24%
30-50 years old	Head count	22	19	65	79
	%	31%	37%	49%	52%
Over 50 years old	Head count	23	15	36	37
	%	32%	29%	27%	24%

All employees leaving the Group are included in the calculation. The exceptions are employees who are subsequently re-employed, vacation interns and transfers of undertakings.

Training					
Training days, total	Days	2,774	2,600	1,438	2,811

The amount of training is shown in days due to the differences in standard working hours at the various Group companies.
A breakdown of training days by gender and employee category for the Group as a whole cannot be provided at present.

Sick leave					
Sick leave, total	Days	5,134	4,016	5,236	7,078
Average days of sick leave per employee	Days	8	6	7	10
Occupational accidents	Total	2	-	2	7

According to doctor's note, i.e. includes weekends and public holidays during the period of sick leave.

Employee compliance/anti-corruption training					
Proportion of employees taking part in training courses, incl. refresher courses	%	100%	100%	100%	100%

10 GROUP OUTLOOK

10.1 Economic environment

Although a somewhat brighter picture emerged at the end of 2022, the economic outlook for 2023 is gloomy. In particular, the precarious geopolitical situation could spring some surprises. The world economy will probably put in a very weak performance, with growth running at less than 3% (IMF October forecast 2.7%). While the eurozone and the USA look set to eke out a fractional growth rate of just over 0%, the world's hopes lie mainly with the developing countries, and particularly with India and China. The Beijing government's decision to drop its zero-Covid strategy carries medium-term risks for the path of the pandemic, but has brought short-term relief for the economy. The Chinese economy now has a considerable amount of pent-up potential because the country stuck to its zero-Covid strategy for so long, and the government and central bank are accompanying its new stance with pro-growth policies.

Inflation is likely to slow markedly in the course of 2023. The persistent supply chain problems since 2021 appear to be gradually easing, though China's new pandemic strategy risks causing some delays in the medium term. Corrections of freight and raw material costs, and also hefty statistical base effects will dampen measured inflation. As the anticipated decline in inflation is starting out from a high level, the average rate is likely to remain above the ECB's target of 2% in 2023.

In December the central banks predicted that the current round of interest rate increases would continue in the new year. The capital markets expect interest rates to reach 5.25-5.50% in the USA and 3.25-3.50% in the eurozone by spring 2023. There is still considerable uncertainty about when the current interest rate hike cycle will end, and how high rates will climb. It is also hard to gauge whether there will be room for the first interest rate reductions in the course of 2023. They are definitely more likely to affect the USA than the eurozone.

Following the negative performance seen in 2022, capital market sentiment is now cautiously optimistic. The corrections of bond and share prices have certainly placed valuations on a sounder footing. The performance of the various asset classes in 2023 will be heavily influenced by the central banks' behaviour and, still more, by the unpredictable geopolitical situation.

In Austria the sharp rise in inflation unleashed by the war in Ukraine will continue to depress purchasing power and, in turn, consumption in 2023. It will only partly be possible to compensate for this through tax relief (e.g. the elimination of fiscal drag), the wage increases currently under negotiation and cost of living compensation payments. Following its strong showing in 2022, GDP growth is expected to limp along at 0.3% in 2023, in line with the eurozone (OeNB outlook). According to an OeNB (Austrian central bank) forecast (December 2022), Germany – which forms part of HYPO NOE's core market – will enter a recession, with the economy contracting by 0.6%. The effects of the current overlapping crises will be lagged, making themselves felt in the shape of relatively slow economic growth (1.1%) in 2023 and 2024.

At federal level, tax revenue will rise significantly more slowly than in 2021 and 2022 because of low economic growth, but it will benefit indirectly from higher wage settlements, and from forecast inflation via consumption taxes. On the spending side, cost-of-living measures will have to be funded, as will rising interest payments now that rates have risen again, and accommodative interest rate and monetary policies have come to an end. In parallel, these developments will also have an impact on state government finances in the form of slower growth in revenue shares, increased interest expenses and higher expenditure owing to inflation.

The course of future waves of Covid infections and their effects on the 2022/23 winter holiday season are the main sources of uncertainty behind these forecasts. Additionally, the length of the war in Ukraine and the potential impact of the stoppage of Russian gas supplies threatened for February are seen as major uncertainties in the economic picture for the HYPO NOE Group's core markets.

10.2 Outlook for Group performance

Although operating conditions were hallmarked by further new challenges in 2022, the HYPO NOE Group once again posted excellent results. The business model with its focus on financing low-risk hard and social infrastructure, as well as private, non-profit and commercial housing, showed its worth yet again, and the bank of the state of Lower Austria lived up to its sense of responsibility for the future by prioritising projects that add value for society.

The Ukraine conflict is placing a growing strain on the economic environment. During the year HYPO NOE Landesbank analysed its loan portfolio for potential effects. There are no direct lending exposures in the war zone. In 2022 appropriate precautions were taken in the risk systems, on the basis of ECL model assumptions, in response to the recognisable indirect effects on existing exposures and the inescapable implications for macroeconomic risk factors.

Rising construction cost indexes, the ECB's interest-rate turnaround, and stricter lending criteria for home loans as recommended by the Financial Market Stability Board (FMSB) are likely to continue to mute growth in the Austrian real estate financing sector. The new lending standards for home loans, with their focus on borrowers' ability to make repayments, are largely in line with long-standing practice at HYPO NOE. Unfortunately, in some parts of the market they represent a virtually insurmountable barrier for first-time buyers – especially young people. The Austrian Financial Market Authority is already evaluating initial experience with the rules and looking at possible amendments to the new legislation. Any excessive obstacles to new loans are to be modified where necessary, without prejudicing the aim of more risk-aware lending practices. The Group's credit risk model has been adjusted for the effects of higher construction costs and interest rates, and adequate provisions recognised.

In December 2022 Allgemeines Rechenzentrum GmbH (ARZ), which was majority owned by the Volksbank Group, HYPO NOE Landesbank and other state mortgage banks, as well as some other private sector banks, sold its business operations to Accenture TiGital GmbH. Accenture TiGital GmbH thus becomes a specialist technology service provider with its roots in the Austrian banking sector that offers core banking services from online banking through to customer-facing regulatory services. This will not result in any direct operational changes for HYPO NOE Landesbank's banking systems. During the takeover talks with Accenture, agreement was reached to continue enhancing key processes and systems, and to develop an innovative, cloud-based banking platform-as-a-service offering for new and existing customers throughout Europe so as to be ideally prepared for future challenges and demands.

The HYPO NOE Group is stepping up to tackle one of the most pressing challenges of our times: climate change. HYPO NOE Landesbank is partnering ten other flagship companies which have signed up to the klimaaktiv climate programme, which forms part of the Austrian climate initiative, committing them to a reduction of over 50% in CO_2 emissions and an increase of 22% in energy efficiency by 2030. As a regional bank, HYPO NOE Landesbank has always been committed to sustainability, reflecting a sense of responsibility to its region and for promoting local economic development, since its formation in 1888. And as a pioneer of corporate social responsibility, which began establishing a formal sustainability programme as early as 2013, the Bank is aware of its duty to current and future generations.

It monitors the social and environmental compatibility of its own banking business, and investors can do likewise in connection with its successful refinancing operations. In January 2023 HYPO NOE Landesbank's third EUR 500m green senior preferred benchmark bond issue was placed with Austrian and foreign investors. Further issuance to meet refinancing needs is again likely in 2023, while the emphasis will remain on maintaining the Bank's broadly diversified refinancing structure and its high level of deposits.

The increased administrative expenses that inevitably accompany high inflation will be countered by further efficiency increases and process optimisation, together with further honing of the business model and maintenance of the current strategy of risk-aware, sustainable growth. The Group's highly committed workforce, and its exceptionally sound capital base with a CET1 ratio of 20.52%, will be the main props of its continued success in a volatile and in part difficult business environment.

St. Pölten, 22 February 2023
The Management Board

Wolfgang Viehauser
Management Board Member Markets
and Speaker of the Board

Udo Birkner
Management Board Member Finance,
Risk & Operations

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022
IN ACCORDANCE WITH IFRS
HYPO NOE GROUP

1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Gains/losses

EUR '000	Notes	2022	2021
Interest and similar income measured using the effective interest method		266,920	253,020
Interest and similar income not measured using the effective interest method		128,597	178,336
Interest and similar expense		-253,388	-291,080
Dividend income		-	58
Net interest income	**4.2.1**	**142,129**	**140,334**
Fee and commission income		17,301	21,974
Fee and commission expense		-2,243	-3,112
Net fee and commission income	**5.1**	**15,058**	**18,862**
Net measurement gains or losses		8,461	-1,354
Net gains on derecognition of financial assets		275	2
Net gains or losses on financial assets and liabilities	**4.2.2**	**8,735**	**-1,352**
Other operating income	5.2	13,049	20,172
Other operating expense	5.2	-10,635	-14,851
Administrative expenses	5.3	-102,655	-101,465
Impairment losses on financial assets – IFRS 9 ECL	4.5.4	-3,733	-10,679
Net gains or losses on investments accounted for using the equity method	10.3	-368	3,207
Profit before tax		**61,580**	**54,228**
Income tax expense	7.1	-14,453	-12,373
Profit for the year		**47,127**	**41,855**
Non-controlling interests	3.2	-208	-205
Profit attributable to owners of the parent		**46,919**	**41,651**

Other comprehensive income

EUR '000	Notes	2022	2021
Profit for the year		**47,127**	**41,855**
Changes in valuation that will not be reclassified to profit or loss		**3,290**	**728**
Equity instruments – FVOCI	4.2.2	-105	-24
Actuarial gains	6.2.2	3,395	752
Changes in valuation that will be reclassified subsequently to profit or loss		**-3,689**	**-1,131**
Debt instruments – FVOCI	4.2.2	-3,389	-945
Debt instruments – FVOCI reclassified to profit or loss	4.2.2	-300	-185
Other comprehensive income		**-399**	**-403**
Total comprehensive income		**46,728**	**41,452**
Non-controlling interests	3.2	-208	-205
Comprehensive income attributable to owners of the parent		**46,519**	**41,248**

2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

EUR '000	Notes	31 Dec. 2022	31 Dec. 2021
Cash and balances at central banks	4.3	184,915	1,409,248
Financial assets – HFT	4.3	124,809	310,574
Financial assets – mandatorily FVTPL	4.3	122,172	149,504
Financial assets – FVOCI	4.3	236,890	370,575
Financial assets – AC	4.3	13,899,591	14,053,484
Positive fair value of hedges (hedge accounting)	4.6.2	388,385	302,262
Investments accounted for using the equity method	10.3	33,724	33,692
Investment property	6.1	24,671	33,518
Intangible assets	6.1	474	197
Property, plant and equipment	6.1	63,826	65,942
Current tax assets	7.1	17,719	15,999
Deferred tax assets	7.3	325	352
Other assets	6.3	23,751	17,904
Total assets		**15,121,252**	**16,763,250**

Liabilities

EUR '000	Notes	31 Dec. 2022	31 Dec. 2021
Financial liabilities – HFT	4.4	103,065	289,887
Financial liabilities – FVO	4.4	5,239	6,061
Financial liabilities – AC	4.4	13,362,690	14,920,835
Negative fair value of hedges (hedge accounting)	4.6.2	683,653	615,675
Provisions	6.2	74,970	76,862
Current tax liabilities	7.1	6,741	5,809
Deferred tax liabilities	7.3	22,613	22,297
Other liabilities	6.3	71,711	78,481
Equity	**3.1**	**790,571**	**747,344**
Equity attributable to owners of the parent	3.1	781,862	738,842
Non-controlling interests		8,710	8,501
Total equity and liabilities		**15,121,252**	**16,763,250**

3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 Dec. 2022 EUR ’000	1 Jan. 2022	Profit for the year	Reversals	Dividends paid	Other compre-hensive income	Other changes	31 Dec. 2022
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	490,427	46,919	-63	-3,500	-	-	533,782
Other reserves composed of:	**4,610**	**-**	**63**	**-**	**-399**	**-**	**4,275**
Actuarial gains and losses	-3,694	-	-	-	3,395	-	-299
Debt instruments – FVOCI	7,903	-	-	-	-3,689	-	4,214
Equity instruments – FVOCI	401	-	63	-	-105	-	359
Equity attributable to owners of the parent	**738,842**	**46,919**	**-**	**-3,500**	**-399**	**-**	**781,862**
Non-controlling interests	8,501	208	-	-	-	-	8,710
Equity	**747,344**	**47,127**	**-**	**-3,500**	**-399**	**-**	**790,571**

31 Dec. 2021 EUR ’000	1 Jan. 2021	Profit for the year	Reversals	Dividends paid	Other compre-hensive income	Other changes	31 Dec. 2021
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	452,557	41,651	36	-3,800	-	-17	490,427
Other reserves composed of:	**5,020**	**-**	**-23**	**-**	**-403**	**17**	**4,610**
Actuarial gains and losses	-4,462	-	-	-	752	17	-3,694
Debt instruments – FVOCI	9,034	-	-	-	-1,131	-	7,903
Equity instruments – FVOCI	449	-	-23	-	-24	-	401
Equity attributable to owners of the parent	**701,382**	**41,651**	**13**	**-3,800**	**-403**	**-**	**738,842**
Non-controlling interests	8,980	205	-650	-33	-	-	8,501
Equity	**710,362**	**41,855**	**-637**	**-3,833**	**-403**	**-**	**747,344**

4 CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	Notes	31 Dec. 2022	31 Dec. 2021
Cash and cash equivalents at end of previous period	**4.3**	**1,409,248**	**1,463,942**
Profit for the year		**47,127**	**41,855**
Adjustments for interest income and expense	4.2.1	-142,129	-140,334
Non-cash items from operating activities		**24,238**	**-68,734**
Amortisation, depreciation, impairment and write-ups on property, plant and equipment, intangible assets and investment property		5,430	5,958
Allocations to and reversals of provisions and risk provisions	4.5.4, 6.2.1	8,673	19,740
Net measurement losses or gains on financial assets and liabilities	4.2.2	-7,138	1,353
Other adjustments		17,273	-95,785
Changes in assets and liabilities due to operating activities		**-1,311,774**	**3,365**
Financial assets – AC		149,968	-814,706
Financial assets – mandatorily FVTPL		20,266	26,449
Financial assets – FVOCI		128,879	143,149
Other operating assets		-39,532	18,648
Financial liabilities – AC		-1,562,470	643,138
Other operating liabilities		-8,886	-13,314
Payments for taxes, interest and dividends		**158,100**	**119,688**
Income tax paid		-12,920	-7,226
Interest received		429,333	412,912
Interest paid		-260,543	-286,676
Dividends on FVOCI investments received	4.2.1	-	58
Dividends received from associates	10.4	2,230	620
Cash flows from operating activities		**-1,224,438**	**-44,160**
Proceeds from sale of/redemption of:		**8,289**	**201**
Investments (accounted for using the equity method/FVOCI/immaterial investments in other assets)		43	92
Property, plant and equipment, intangible assets and investment property		8,246	109
Purchase of:		**-4,555**	**-7,454**
Investments (accounted for using the equity method/FVOCI/immaterial investments in other assets)		-2,450	-32
Property, plant and equipment, intangible assets and investment property		-2,105	-7,423
Proceeds from disposal of subsidiaries	**5.2**	**195**	**1,477**
Cash flows from investing activities		**3,929**	**-5,776**
Dividends paid	**3**	**-3,500**	**-3,833**
Repayment of lease liabilities		**-324**	**-925**
Cash flows from financing activities		**-3,824**	**-4,758**
Net increase/decrease in cash and cash equivalents		**-1,224,333**	**-54,694**
Cash and cash equivalents at end of period		**184,915**	**1,409,248**

Information on the consolidated statement of cash flows can be found in Note 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022 IN ACCORDANCE WITH IFRS HYPO NOE GROUP

1 GENERAL INFORMATION

HYPO NOE Landesbank für Niederösterreich und Wien 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 99073x.

The HYPO NOE Group has chosen the internet as the means of fulfilling its disclosure obligations in accordance with section 65 Austrian *Bankwesengesetz* (Banking Act), Part Eight of Regulation (EU) No 575/2013, and the Disclosure Regulation. The disclosures are published on the HYPO NOE Group website at ir.hyponoe.at/en/.

The Management Board approved the consolidated financial statements for publication on 22 February 2023.

1.1 Accounting standards

The consolidated financial statements of the HYPO NOE Landesbank für Niederösterreich und Wien AG Group (the HYPO NOE Group) for 2022 were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union pursuant to Regulation (EC) No 1606/2002 on the application of international accounting standards. The requirements of section 59a Austrian Banking Act and section 245a *Unternehmensgesetzbuch* (Austrian Business Code) were fulfilled.

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2022 consist of 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 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 HYPO NOE Group applies uniform Group-wide accounting policies. 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 consolidated financial statements have been prepared on a going concern basis.

1.2 Significant accounting policies

Information on the accounting policies applied can be found in the disclosures on the various subjects. In the following chapters, significant accounting policies are denoted by the symbol . The table below provides an overview.

Significant accounting policies	Notes	IFRS
Currency translation	1.5	IAS 21
Segment information	2	IFRS 8
Financial instruments I – classification and measurement	4.1, 4.3, 4.4	IFRS 9, IFRS 7, IAS 32
Net interest income	4.2.1	IAS 1
Financial instruments II – loss allowances	4.5.2	IFRS 9, IFRS 7
Financial instruments III – hedge accounting	4.6.2	IFRS 9, IFRS 7
Fair value disclosures	4.7	IFRS 9, IFRS 7, IFRS 13
Net fee and commission income	5.1	IFRS 15
Investment property	6.1	IAS 40
Leasing	6.1	IFRS 16
Intangible assets and property, plant and equipment	6.1	IAS 38, IAS 16
Impairment of non-financial assets	6.1, 10.3	IAS 36
Provisions	6.2	IAS 19, IAS 37
Taxes	7	IAS 12
Consolidated statement of cash flows	9	IAS 7
Interests in subsidiaries, associates and joint ventures	10	IAS 28, IFRS 10, IFRS 11, IFRS 12

1.3 Estimation uncertainty and judgements

Estimation uncertainties and judgements are denoted below by the symbol .

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

- Measurement of financial instruments, associates and joint ventures
- Assessment of the ECB’s monetary policy measures (use of TLTRO instruments)
- Evaluation of the transfer of financial instruments in accordance with paragraph 3.2.4 IFRS 9
- Determining impairment losses and gains on financial assets
- Defining default
- Performance of SPPI tests
- Establishment of the principles governing the transfer of financial instruments (stage transfers)
- Assessment of inclusion in the scope of consolidation
- Recognition of deferred tax assets attributable to tax loss carryforwards
- Determination of fair value
- Determination of the useful lives of intangible assets, right-of-use assets, and property, plant and equipment
- Assessment of the effect of first-time application of new IFRS
- Recognition and measurement of provisions
- Determination of the credit-adjusted effective interest rate for POCI assets

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

1.4 New and amended regulations

New and amended standards	Applicable from	Effect
Annual Improvements 2018-2020 Cycle	1 Jan. 2022	Immaterial
Proceeds before Intended Use – Amendment to IFRS 16	1 Jan. 2022	None
Onerous Contracts – Amendment to IAS 37	1 Jan. 2022	None
Reference to the Conceptual Framework – Amendment to IFRS 3	1 Jan. 2022	None

New and amended standards adopted but not yet applied		
Disclosure of Accounting Policies – Amendment to IAS 1	1 Jan. 2023	Immaterial
Definition of Accounting Estimates – Amendment to IAS 8	1 Jan. 2023	Immaterial
IFRS 17 Insurance Contracts	1 Jan. 2023	None
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendment to IAS 12	1 Jan. 2023	None
IFRS 17 Insurance Contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1 Jan. 2023	None
Classification of Liabilities as Current or Non-current – Amendment to IAS 1	1 Jan. 2024 *	None
Lease Liability in a Sale and Leaseback – Amendment to IFRS 16	1 Jan. 2024 *	None

*Mandatory application not yet endorsed by the EU

New *Pfandbriefgesetz* (Covered Bond Act)

The new Austrian Covered Bond Act came into effect on 8 July 2022. This transposes Directive (EU) 2019/2162, which sets out minimum standards but also leaves scope for regional differences. The directive is intended to ensure that covered bonds issued throughout the European Union have identical structural characteristics and meet the relevant regulatory requirements. The new Covered Bond Act provides a uniform legal basis for the issue of such bonds, and replaces the Austrian *Hypothekenbankgesetz* (Mortgage Bank Act), the previous Covered Bond Act and the *Gesetz betreffend fundierte Bankschuldverschreibungen* (Covered Bond Issuance Act).

The HYPO NOE Group has initiated a project to analyse and implement the new legal requirements. Appropriate measures will be drawn up to ensure that the Group meets the amended requirements. The amended act will not have any effect on the Group's financial statements.

Amendments to the 1988 *Körperschaftssteuergesetz* (Austrian Corporation Tax Act)

The amended act came into force on 14 February 2022. Article 2 of the new Corporation Tax Act provides for reductions in the rate of corporation tax to 24% in 2023 and 23% in 2024. This adjustment will result in a reduction in deferred tax liabilities of EUR 1,756thsd, of which EUR 1,633thsd will be taken to profit or loss under "Income tax expense", while EUR 123thsd will be recognised outside profit or loss in other comprehensive income.

1.5 Currency translation

Significant accounting policies

In accordance with IAS 21, monetary assets and liabilities denominated in foreign currencies, non-monetary items measured at fair value, and cash transactions unsettled as at the end of the reporting period are translated at the mid spot rate, and forward transactions unsettled as at the end of the reporting period are translated at the mid forward rate ruling at the end of the reporting period.

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

2 SEGMENT INFORMATION

Significant accounting policies

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

The organisational and management structure of the HYPO NOE Group is based on areas of activity and customer groups.

Segment reporting is derived from the profit centre accounting of HYPO NOE Landesbank and consolidated subsidiaries' IFRS consolidation packages. The same accounting policies are applied to the preparation of these statements as those set out in the 'Significant accounting policies' section of Note 1.

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

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

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

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

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

Disclosures on profit or loss and the carrying amounts of investments accounted for using the equity method in each segment, in accordance with paragraphs 23 and 24 IFRS 8, are provided in Note 10.3 Investments accounted for using the equity method.

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

Segmental analysis as at 31 Dec. 2022, EUR ’000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Group
Net interest income/expense	32,917	43,069	36,821	33,778	-4,456	142,129
Net fee and commission income/expense	-215	1,271	14,184	-161	-21	15,058
Net gains or losses on financial assets and liabilities	-1,153	-1,322	836	13,631	-3,258	8,735
Net other operating income/expense	4,755	2,830	2,628	-1,786	-6,013	2,413
Net gains or losses on investments accounted for using the equity method	1,232	-1,933	-	333	-	-368
Administrative expenses	-21,018	-17,849	-45,347	-15,633	-2,807	-102,655
Impairment gains/losses on financial assets – IFRS 9, ECL	3,421	-5,266	-1,970	51	31	-3,733
Profit/loss before tax	**19,939**	**20,800**	**7,152**	**30,213**	**-16,524**	**61,580**
Income tax expense						-14,453
Profit for the year						**47,127**
Segment assets	**6,923,982**	**3,232,469**	**2,216,516**	**2,603,109**	**145,177**	**15,121,252**
Segment liabilities	**1,786,027**	**301,544**	**2,311,105**	**9,805,717**	**916,860**	**15,121,252**

Segmental analysis as at 31 Dec. 2021, EUR ’000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Group
Net interest income/expense	32,894	40,367	39,076	36,010	-8,013	140,334
Net fee and commission income/expense	3,232	1,208	14,722	-208	-91	18,862
Net gains or losses on financial assets and liabilities	-979	-223	-403	-2,666	2,920	-1,352
Net other operating income/expense	4,212	5,603	1,337	5,788	-11,620	5,322
Net gains or losses on investments accounted for using the equity method	2,222	-4	-	989	-	3,207
Administrative expenses	-19,641	-18,682	-47,377	-13,732	-2,033	-101,465
Impairment gains/losses on financial assets – IFRS 9, ECL	2,171	-10,313	-2,570	35	-1	-10,679
Profit/loss before tax	**24,111**	**17,954**	**4,784**	**26,216**	**-18,838**	**54,228**
Income tax expense						-12,373
Profit for the year						**41,855**
Segment assets	**7,504,547**	**3,094,210**	**2,102,540**	**3,917,180**	**144,773**	**16,763,250**
Segment liabilities	**2,253,736**	**398,700**	**2,345,741**	**10,911,102**	**853,972**	**16,763,250**

2.1 Public Sector segment

This segment includes financing and deposit-taking business with public sector and government-linked customers (state governments, local and regional authorities, public agencies and infrastructure businesses, as well as religious communities and interest groups). Using its home market of Lower Austria and Vienna as a springboard, the segment’s geographical focus is on Austria and Germany. Customers are offered conventional loan finance, and there is an emphasis on custom financing models in the segment’s home market. In addition, income generated by the administration of subsidised homebuilding loans, a service provided for the public sector by HYPO NOE Landesbank, is reported under this segment.

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

Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H, which is accounted for using the equity method, is also allocated to this segment.

The Public Sector segment has a major business relationship with a customer in the meaning of paragraph 34 IFRS 8. The customer in question is a public authority, and the services provided mainly take the form of leases, as well as lending and deposit taking. Dealings with the authority and its allocable group entities, in accordance with the definition of major investments and without recourse to the exemption for sub-groups generated net interest income of EUR 19.4m during the reporting period. This figure comprises EUR 5.7m from direct business relationships with the customer, EUR 3.0m from direct business relationships with allocable group members, and EUR 10.7m from indirect business relationships in the form of lease refinancing.

2.2 Real Estate segment

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

The HYPO NOE Group has a long tradition of providing finance for cooperative and non-profit housing developers, with an emphasis on the construction and renovation of large housing projects including land purchases in Austria, mainly in Lower Austria and Vienna. Due to the high collateral coverage ratio, the long duration of contracts and resulting low probability of default, this line of business is a stable source of long-term earnings. In addition, HYPO NOE Landesbank has recently won several contracts put out to tender by the State of Lower Austria for state-guaranteed homebuilding loans. These loans are earmarked primarily for affordable housing and homes for young people.

In addition, the segment provides finance for commercial housing construction projects, other real estate developments devoted predominantly to residential use, as well as existing properties (rental apartment buildings) in Austria. In the case of new builds, the apartments constructed are either held in the portfolio and let to private individuals, or sold off individually as owner-occupier properties.

Activities in this segment also include large-scale commercial real estate transactions in Austria and in selected foreign markets, with financing provided for real estate earmarked for residential and commercial use. In Austria, the segment focuses on flagship and other large-scale projects valued at between EUR 20m and EUR 40m. The segment plans to extend its operations in selected areas – in its foreign business, the emphasis will be on leveraging the potential to generate additional earnings compared with the domestic market, as well as ensuring a balanced risk-return ratio. In particular, equity ratios are higher and guarantee mechanisms more highly developed in the foreign business. Outside Austria, the costs for entering collaterals in property registers are negligible, meaning that the barriers to entry are low. The segment will concentrate on cover-pool-eligible financing in EU markets with good or very good ratings.

The Real Estate segment’s product portfolio is supplemented by subsidiary HYPO Niederösterreichische Liegenschaft GmbH, as well as the Group’s interests in NOE Immobilien Development GmbH (NID), a property developer, EWU Wohnbau Unternehmensbeteiligungs-GmbH, and VIVITliving GmbH, all three of which are accounted for using the equity method.

2.3 Retail and Corporate Customers segment

This segment’s core competences include banking business with retail, self-employed and corporate customers. The product portfolio consists of ‘finance and housing’, ‘saving and investment’, and ‘accounts and cards’ lines, and covers the full range of traditional banking business, from lending – with an emphasis on housing construction – to investment in savings products and securities, as well as current accounts and credit cards. Close cooperation with the State of Lower Austria enables the Group to offer one-stop consultation regarding loans and subsidies, which ensures sound advice and rapid processing for customers.

Services are provided to retail customers through the branch network in the Group’s home Lower Austria and Vienna market, with a strategic focus on the core product, housing finance. Regarding add-on products, the segment proactively enters into partnerships with the goal of further increasing net fee and commission income. These efforts are centred on digitalisation and achieving efficiency gains by implementing numerous proprietary innovations.

The comprehensive range of services provided to corporate customers is geared towards ensuring healthy and sustained expansion of the Bank’s business in its core market of Lower Austria and Vienna, as well as in Austria as a whole and in Germany. The focus is on small and medium-sized enterprises (SMEs) as well as large companies. A separate specialised team develops structured product solutions, in particular subsidised loans and export finance, and provides advice on payment transactions.

The insurance brokerage business of HYPO NOE Versicherungsservice GmbH (HVS), which was disposed of in 2022, is also included in this segment.

2.4 Treasury & ALM segment

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

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

The objective of Asset Liability Management (ALM) is to centrally manage the Bank's interest position, in line with its interest rate expectations and risk appetite, in order to safeguard profitability and achieve positive structural contributions.

Close cooperation with institutional customers is central to the HYPO NOE Group's business model. As part of its investor relations activities, the Bank nurtures these long-standing, trust-based partnerships on an ongoing basis by actively servicing its direct relationships with other banks, insurance companies, pension funds, utilities and investment companies. The resulting focus is on relations with European partners, although in recent years there has been growing interest from investors in certain countries outside Europe.

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

Niederösterreichische Vorsorgekasse AG, an entity accounted for using the equity method, is also allocated to the Treasury & ALM segment.

2.5 Corporate Center

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

The ancillary services include companies that manage properties predominantly used by the Group and any related assets, namely Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H. and Unternehmens-, Verwaltungs- und Verwertungsgesellschaft m.b.H. The rental expenses and operating costs charged on by these firms are allocated to the operating segments' administrative expenses on a causation basis. HYPO Officium GmbH is also allocated to the Corporate Center, as are earnings and expenses related to interests managed by the investment management unit that are not directly apportioned to any operating segment.

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

The following asymmetrical allocations are also reported under Corporate Center, pursuant to paragraphs 27ff IFRS 8:

- Cost of cash collaterals for customer derivatives contracts in the absence of collateral agreements:
  Where customer derivatives are not secured by collateral agreements, the HYPO NOE Group does not receive collateral from customers but must post cash collaterals for the related hedges. Liquidity costs are incurred when refinancing the open collateral position. Treasury & ALM is responsible for managing all collateral positions, while the related refinancing costs for the open collateral positions are reported under Corporate Center. Under the current approach, collateral requirements for derivatives contracts with customers are met by means of pricing or collateral agreements, and are therefore not included in this asymmetrical allocation.

- Adverse effects of structural contributions on consumer loans arising from negative variable interest indicators
- Changes in a legal-risk provision for potentially contentious negative interest collected on corporate loans

Net interest income in the Corporate Center segment in 2022 includes EUR 1.5m (2021: EUR 2.4m) in asymmetrical allocations arising from collateral expenses, as well as EUR 2.4m (2021: EUR 3.8m) in unfavourable structural contribution effects arising from negative variable interest rate indicators on consumer loans.

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

Net losses on financial assets and liabilities in the reporting period were EUR 3.2m (2021: net gains of EUR 2.9m). These were attributable to measurement of the HETA contingent additional purchase price. Details can be found in Note 4.7 Fair value disclosures.

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

Allocations were made to a provision for negative interest on corporate loans in 2020, 2021 and 2022; these allocations are recognised in “Net other operating income”. See Note 6.2 Provisions for further information. This Corporate Center item also includes compensation for the services of the Retail and Corporate Customers segment in connection with internal customers, recognised as an expense of EUR 1.1m (2021: expense of EUR 1.2m).

Additional disclosures concerning business segment performance are provided in section 3 of the Group operational and financial review.

3 EQUITY AND CONSOLIDATED OWN FUNDS

3.1 Equity

Significant accounting policies

“Non-controlling interests” (minority interests) include interests in consolidated subsidiaries, and are reported as a separate equity item, in accordance with IAS°1.

The capital reserves contain share premiums paid in excess of nominal value when shares are issued. The retained earnings reserves required by law 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 for the year and dividends) are reported under “Retained earnings”.

EUR ’000	31 Dec. 2022	31 Dec. 2021
Share capital	51,981	51,981
Capital reserves	**191,824**	**191,824**
Appropriated reserve	94,624	94,624
Unappropriated reserve	97,200	97,200
Other reserves	4,275	4,610
Retained earnings	533,782	490,427
Equity attributable to owners of the parent	**781,862**	**738,842**
Non-controlling interests	8,710	8,501
Equity	**790,571**	**747,344**

As was the case a year earlier, as at 31 December 2022 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 2022 the share capital (issued capital) of HYPO NOE Landesbank, amounting to EUR 51,981thsd (2021: EUR 51,981thsd), was fully paid-up. Each share confers the right to one vote. In 2022 a dividend of EUR 3,500thsd (2021: EUR 3,800thsd) was paid to the owners. This corresponds to a rounded-up dividend yield of EUR 0.49 per share (2021: EUR 0.53 per share). Management proposes the distribution of a dividend of EUR 5,000thsd in 2023.

The total return on assets was 0.31% (2021: 0.25%).

3.2 Non-controlling interests

The table below provides an overview of the share of earnings attributable to non-controlling interests.

EUR '000	2022	2021
FORIS Grundstückvermietungs Gesellschaft m.b.H.	13	22
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-198	-162
LITUS Grundstückvermietungs Gesellschaft m.b.H.	12	29
PINUS Grundstückvermietungs Gesellschaft m.b.H.	-24	-64
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-63	-26
Adoria Grundstückvermietungs Gesellschaft m.b.H.	129	11
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-	-5
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	-	8
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	-5	-8
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-62	-6
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	-12	-5
Non-controlling interests	**-208**	**-205**

In 2022 there were no non-controlling interests with a claim to a share of other comprehensive income. As in the previous year, no dividends were distributed to non-controlling interests. Financial information relating to unconsolidated subsidiaries in which the Group holds non-controlling interests is shown below.

All the subsidiaries in which the Group holds minority interests are in the Leasing segment.

Subsidiaries with non-controlling interests

EUR '000	31 Dec. 2022	31 Dec. 2021
Cash and balances at central banks	3,684	101
Financial assets – AC	723,374	749,194
Current tax assets	3	3
Deferred tax assets	1,791	2,309
Other assets	80	607
Total assets	**728,932**	**752,213**
Financial liabilities – AC	671,478	685,944
Deferred tax liabilities	6,986	7,504
Other liabilities	25,198	34,322
Equity	25,270	24,443
Equity attributable to owners of the parent	16,560	15,942
Non-controlling interests	8,710	8,501
Total equity and liabilities	**728,932**	**752,213**

3.3 Reconciliation of equity

EUR ’000	31 Dec. 2022	31 Dec. 2021
Equity according to IFRS financial statements	**790,571**	**747,344**
Divergence in scope of consolidation (accounting vs. regulatory treatment)	1,600	-251
Equity according to FINREP template 51	**792,171**	**747,092**
Deferred taxes on untaxed reserves	-3,903	-3,903
Prudent valuation (simplified approach)	-544	-997
Intangible assets	-474	-197
Prudential backstop	-711	-372
Ineligible minority interests	-8,710	-8,501
Intra-year change in revaluation surplus, profit and dividend	-5,000	-3,500
Eligible capital	**772,830**	**729,622**

Eligible capital diverges from the HYPO NOE Group’s equity for the following reasons:

- The scope of consolidation according to the CRR and IFRS is slightly different.
- The deferred tax liabilities included in EUR 15,612thsd in untaxed liability reserves may not be included in equity, as these reserves will be taxable in the event of reversal (Independent Financial Senate appeal decision GZ.RV/1669-W/02 of 2003, and paragraph 95a AFRAC 30) and hence do not fully meet the requirements of Article 26(1) CRR.
- Under Commission Delegated Regulation (EU) 2016/101 in conjunction with Article 105 CRR, valuation uncertainties must be considered in relation to items recognised at fair value when using the simplified approach to prudent valuation.
- Article 36(1)(b) CRR states that intangible assets are a regulatory deduction.
- For the purposes of Article 36(1)(m) CRR, “insufficient coverage of non-performing exposures” is the purely regulatory adjustment for non-performing exposures as defined by Article 47a CRR, over and above the IFRS°9 Stage 3 risk provisions, and the calculation formula is set out in Article 47c in conjunction with Article 469a CRR.
- As the minority interests only relate to banks they are not eligible under Article 81 CRR.
- The proposed dividend or an unaudited interim profit is a non-qualifying equity component in the meaning of Article 26(2) CRR.

3.4 Consolidated own funds and regulatory own funds requirement

Under Regulation (EU) No. 575/2013 (Capital Requirements Regulation [CRR]) as amended, including latterly by Regulation (EU) No. 2022/2036, and related EBA delegated regulations, as well as the directive on access to the activity of credit institutions (Capital Requirements Directive [CRD]) as last amended by Directive (EU) No. 2021/338, which is currently being transposed by way of the Austrian Banking Act and various national orders, since 2014 it has been necessary to determine banks’ consolidated own funds and their consolidated regulatory own funds requirements under IFRS, as well as the regulatory scope of consolidation.

The composition of the HYPO NOE Group’s own funds, calculated in accordance with the CRR/CRD, is as follows.

EUR '000	CRR/CRD IV 31 Dec. 2022	CRR/CRD IV 31 Dec. 2021
Share capital	**136,546**	**136,546**
Paid-up capital instruments	51,981	51,981
Premiums	84,566	84,566
Reserves, differences and non-controlling interests	**638,012**	**594,641**
Retained earnings	522,979	481,417
Other reserves	104,744	104,744
Accumulated comprehensive income	10,290	8,480
Prudential filters: adjustments due to the prudent valuation requirements	-544	-997
Prudential backstop: insufficient coverage of non-performing exposures	-711	-372
Intangible assets	-474	-197
CET1 capital	772,830	729,622
Additional Tier 1 capital	-	-
Tier 1 capital	**772,830**	**729,622**
Deductions due to investments, pursuant to Arts. 36 and 89 CRR	-	-
Eligible Tier 1 capital	**772,830**	**729,622**
Eligible supplementary capital (after deductions)	**-**	**-**
Total eligible capital	**772,830**	**729,622**
Minimum capital requirements	**301,300**	**301,609**
Excess capital	**471,530**	**428,013**
Coverage ratio	256.50%	241.91%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	20.52%	19.35%
Total capital ratio in accordance with Art. 92(2)(c) CRR	20.52%	19.35%
Own funds requirement incl. all buffer requirements	12.54%	12.62%
Leverage ratio in accordance with Art. 92(2)(d) CRR	5.14%	4.88%
Leverage ratio requirement (Pillar 1)	3.00%	3.04%

Changes in the risk-weighted measurement basis and the resulting own funds requirement are shown below.

EUR '000	CRR/CRD IV 31 Dec. 2022	CRR/CRD IV 31 Dec. 2021
Total leverage ratio exposure	15,026,265	14,940,070
Risk-weighted exposure measure	3,409,434	3,430,746
Minimum own funds requirement for credit risk (8%)	272,755	274,460
Own funds requirement for open currency positions	-	-
Own funds requirement for operational risk	25,482	24,456
Own funds requirement for CVA risk	3,063	2,694
Total own funds requirement	**301,300**	**301,609**

The Group's total own funds requirement stood at EUR 301,300thsd as at 31 December 2022 (31 Dec. 2021: EUR 301,609thsd), for a decline of EUR 309thsd or 0.1%. The slight increase in the own funds requirement for operational risk, driven by the upward trend in operating income in recent years, as well as the – likewise slight – rise in the capital requirement for CVA were almost completely offset by the somewhat reduced RWA. As no new arrangements for determination of capital requirements that were of significance for the HYPO NOE Group came into force during the year under review, the RWA trend in the relevant exposure classes was reflected both in volume and in the consistent improvement in the RWA through recognition of collaterals and ongoing data quality management.

Capital management

Determination of capital requirements and investment opportunities

Management aims to employ the Company’s capital in the interests of its owners by taking a responsible, value-driven approach. The methods primarily applied to this end are budget and scenario analysis. With the current capital situation as the starting point, they reflect specific economic parameters over a five-year, medium-term planning horizon. Among other things, it is necessary to assess whether risk-bearing capacity (Pillar II) is being maintained on the basis of the planning assumptions made.

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

The Group’s budgeting and medium-term planning takes place in close consultation with all the front-office and back-office units, and the chief executives of the subsidiaries concerned. There are regular liaison discussions with the Management Board. The medium-term budget is approved by the Management Board and notified to the Supervisory Board on an annual basis.

If the budget and scenario analysis indicates a need for capital management actions, these may involve reducing or suspending dividend payments; rights issues; slowing growth, and balance sheet downsizing and related reductions in risk-weighted assets.

Basel Committee on Banking Supervision (BCBS) Paper 277

The above objectives, methods and processes mean that the HYPO NOE Group also 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 2022

No unforeseen capital measures were necessary in 2022. The consistent adherence to low dividend payout ratios has continued to help strengthen the Company’s capital. This policy is particularly tailored to the new rules for the standardised approach to credit risk which are expected to be applicable from 2025 on. These will bring new arrangements and increased capital requirements under CRR III for real estate finance, which is an important business for the HYPO NOE Group.

European legislators have used Title VII Chapter 4 Sections I and II of the CRD to standardise various capital buffer requirements, and these amendments have been transposed into Austrian law by way of the Banking Act.

In order to enhance the resilience of Austrian banks against specific systemic risks, the FMA uses section 23d Banking Act to prescribe additional capital buffers for specifically listed domestic banks, in the form of CET1 capital, under the *Kapitalpuffer-Verordnung* (Capital Buffer Order). The latest amendment to the Order was Federal Law Gazette II No. 469/2022. This brought no changes for the HYPO NOE Group. The buffer requirements were unaltered at 0.5% (2021: 0.5%) of the total risk exposure calculated in accordance with Article 92(3) CRR. HYPO NOE Landesbank, which was hitherto not subject to this requirement, will see its phased introduction in 2023 and 2024 – likewise rising to 0.5%. Member states use these buffer requirements in very different ways. Up-to-date information is provided by the European Systemic Risk Board (ESRB), at https://www.esrb.europa.eu/national_policy/systemic/html/index.en.html.

The phased introduction of the capital conservation buffer pursuant to section 22 Banking Act began in 2016. Identical throughout the territory of the Community since 2019, this buffer must consist of CET1 capital, and remains at 2.5% of the total risk exposure amount. (https://www.esrb.europa.eu/national_policy/capital/html/index.en.html)

Also since 2016, it has been necessary to comply with the countercyclical capital buffer, likewise in the form of CET1 capital, which is governed by section 23a Banking Act. Under section 5 of the schedule to section 23a Banking Act, the calculation basis for this requirement is the relevant credit exposures.

As at the end of the reporting period, according to information from the ESRB (https://www.esrb.europa.eu/national_policy/ccb/html/index.en.html) and the Bank for International Settlements (BIS, https://www.bis.org/bcbs/ccyb/index.htm), the countercyclical capital buffers for risk exposures to customers in the host countries below were as follows.

- Grand Duchy of Luxembourg: 0.5%
- Kingdom of Denmark: 2%
- Kingdom of Norway: 2%
- Kingdom of Sweden: 1%
- Republic of Bulgaria: 1%
- Republic of Estonia: 1%
- Republic of Iceland: 2%
- Romania: 0.5%
- Hong Kong Special Administrative Region of the People's Republic of China: 1%
- Slovak Republic: 1%
- Czech Republic: 1.5%
- United Kingdom of Great Britain and Northern Ireland: 1%

Following low buffer requirements in 2020 and 2021 due to the Covid-19 pandemic, in 2022 the requirements were progressively raised or introduced for the first time. A special case is Switzerland, which decided on 26 January 2022 to reintroduce a buffer for loans secured by residential properties located in Swiss territory, at a rate of 2.5%, as of 30 September 2022.

At various junctures in 2023, the following states will raise their buffer requirements to the percentages listed below or will introduce a countercyclical capital buffer for the first time.

- Federal Republic of Germany: 0.75%
- French Republic: 0.5%
- Ireland: 1%
- Kingdom of Denmark: 2.5%
- Kingdom of Norway: 2.5%
- Kingdom of Sweden: 2%
- Netherlands: 1%
- Republic of Bulgaria: 2%
- Republic of Estonia: 1.5%
- Republic of Croatia: 1%
- Republic of Lithuania: 1%
- Romania: 1%
- Slovak Republic: 1.5%
- Czech Republic: 2.5%
- Hungary: 0.5%
- United Kingdom of Great Britain and Northern Ireland: 2%
- Cyprus: 0.5%

At its last meeting, on 5 December 2022, the Austrian Financial Market Stability Board recommended maintaining the country's countercyclical capital buffer at zero.

There has been a first announcement of an additional increase in the countercyclical capital buffer in 2024, namely by France, which plans to raise the buffer to 1% following its introduction in 2023.

In 2022 the HYPO NOE Group was not faced with a significant increase in its own funds needs as a result of the buffer requirements (31 Dec. 2022: EUR 1,381thsd or 0.04%; 31 Dec. 2021: EUR 688thsd or 0.02%). The known changes point to a sharp rise in the own funds requirement up to year-end 2023 given the current composition of the underlying business, but the low initial level means that this corresponds to an additional requirement of only about 0.18%.

The banking supervisors regularly evaluate the adequacy of banks' capital on the basis of the risk assessment performed as part of the supervisory review and evaluation process (SREP). During this process the supervisors assess the banks' leverage ratios, and judge whether there is a need for additional capital buffers.

The assessment of capital adequacy and the need for additional own funds is largely based on three factors:

- The risk of unexpected losses and of expected losses not covered by sufficient assets over a 12-month period

- Underestimation of risk due to deficiencies in risk models
- 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: first, the total SREP capital requirements (TSCR) – the sum of the capital requirements under Article°92 CRR and others to be specified in more detail by the supervisory authorities; and second, the overall capital requirements (OCR), which are the aggregate of the TSCR, the capital buffers and the macro-prudential requirements.

At the start of July 2022 HYPO NOE Landesbank and the HYPO NOE Group received a new FMA notice reducing the TSCR requirement to 1.5% (from 2019: 1.6%). In consequence, HYPO NOE Landesbank and the HYPO NOE Group were both obliged to comply with minimum capital ratios of 5.34% for CET1 capital, 7.13% for Tier 1 capital and 9.5% for total capital.

4 FINANCIAL INSTRUMENTS AND CREDIT RISK

4.1 Recognition of financial instruments

Significant accounting policies

The HYPO NOE Group recognises the regular way purchase or sale of derivatives and financial instruments on the trade date. Financial assets are derecognised when the contractual rights to the cash flows from them expire or the transfer criteria are fulfilled. Financial liabilities are derecognised when the obligations concerned are discharged or otherwise extinguished.

In the event of modifications to contractual terms during the lifetime of an investment, IFRS 9 requires a distinction to be made where the cash flows have been modified to such an extent that a new contractual relationship has effectively come into being. This assessment is based on both quantitative and qualitative criteria.

The quantitative yardstick is whether there has been a modification of the contractual cash flows resulting in a change of more than 10% in the present value of the modified cash flow structure, discounted by the effective interest rate of the original cash flow. In a quantitative pre-analysis, the main indicator of such a change in present value is modifications to the terms where these are not contractually provided for. Qualitative criteria relate to changes that have not been contractually agreed:

- Currency
- Debtor
- Amendments to clauses affecting SPPI conformity, even if these do not result in a change of more than 10% in present value
- Type of interest, with regard to the contractual terms (change from variable to fixed interest, or from fixed to variable interest)
- Maturity within six months of the maturity date or 90 days after expiry of the transaction concerned (prolongation)

If such a substantial modification is identified, the existing financial instrument must be derecognised and the new, modified instrument recognised. If it is decided that the modification is not substantial in terms of the criteria, a modification gain or loss is recognised on financial instruments measured at amortised cost.

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

4.2.1 Net interest income

Significant accounting policies

Paragraph 82(a) IAS 1 requires interest income calculated using the effective interest method (EIR) to be shown separately from other interest income. Interest on loans and advances with negative interest rates is reported under interest expense (under “Financial liabilities – AC”), while interest on liabilities bearing negative interest is recognised as interest income (under “Financial assets – AC”).

Interest payments and accrued interest arising from derivatives are calculated on the basis of the contractual terms of the transaction, and hence not using the effective interest method, and are offset across both legs (fixed and floating).

EUR '000	2022	2021
Interest and similar income measured using the effective interest method	**266,919**	**253,020**
Financial assets – FVOCI	7,925	11,190
Financial assets and liabilities – AC	227,044	213,203
Current finance lease income	31,950	28,627
Interest and similar income not measured using the effective interest method	**128,597**	**178,336**
Financial assets and liabilities – HFT	59,297	75,794
Financial assets – mandatorily FVTPL	1,119	716
Hedges	65,637	99,102
Other interest and similar income	2,543	2,725
Interest expense	**-253,388**	**-291,080**
Financial assets and liabilities – HFT	-57,579	-74,377
Financial liabilities – AC	-116,260	-119,595
Hedges	-79,519	-97,104
Other interest and similar expense	-27	-
Lease liabilities in accordance with IFRS 16	-3	-4
Dividend income	**-**	**58**
Net interest income	**142,129**	**140,334**

In the year under review, the HYPO NOE Group recorded an increase of 1.3% in "Net interest income" (2021: 8.7%). This underlines the continued improvement in the Group's profitability, even in the face of challenging developments on the markets. Exploiting favourable points in time for funding measures was instrumental in achieving an increase in "Net interest income". The rise in interest income also reflected a further increase in lending – adjusted to eliminate pure measurement effects – and hence successful sales activities during the year.

Interest capitalised in accordance with paragraph 26(a) IAS 23 totalled EUR 590thsd (2021: EUR 329thsd). The average capitalisation rate was 1.32% (2021: 1.03%).

No dividend payments from FVOCI equity instruments were recognised during the reporting period. In 2021, dividends totalling EUR 41thsd from equity instruments held as at the end of the reporting period were recognised, and dividends of EUR 17thsd for financial instruments derecognised during the year.

For further details, see the segment report (Note 2 SEGMENT INFORMATION).

4.2.2 Net gains or losses on financial assets and liabilities

Significant accounting policies

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

All gains and losses on fair value measurement are reported under "Net gains or losses on financial assets and liabilities". This item includes the effects of measurement of financial instruments in the "mandatorily FVTPL", "HFT" and "FVO" categories. It also includes direct measurement gains and losses for assets recognised under "Financial assets – AC" and "Financial assets – FVOCI", receipts from written-off receivables, and gains and losses on non-substantial contract modifications. The item "Net losses on the derecognition of financial liabilities" discloses the result of applying the offsetting rules under paragraph 3.3.3 IFRS 9 to the repurchase of own issues.

Net gains or losses on the measurement of hedged risk with respect to underlyings (basis adjustment) and the corresponding hedges are shown under net measurement gains or losses on hedges (see Note 4.6.2 Detailed information on hedge accounting).

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

EUR ’000	2022	2021
Net gains or losses on:	**8,461**	**-1,353**
Disposal	**3,255**	**301**
Financial assets – AC	2,866	54
Financial assets – FVOCI	390	247
Measurement	**-2,180**	**-127**
Financial assets and liabilities – AC	23	-1,324
Net losses due to non-substantial modification	-160	-1,390
Direct write-offs/receipts from written-off assets	1,389	176
Net losses on the derecognition of financial liabilities	-1,205	-110
Financial assets – mandatorily FVTPL	-7,067	4,641
Financial assets and liabilities – HFT	4,041	-2,692
Financial assets and liabilities – FVO	822	-752
Hedging relationships	**7,385**	**-1,527**
Net losses on hedged transactions (fair value hedges)	-21,401	-55,893
Net gains on hedges (fair value hedges)	28,786	54,366
Net gains arising from the derecognition of financial assets	**275**	**2**
Financial assets – AC	275	2
Total	**8,735**	**-1,352**

The increase in the “Direct write-offs/receipts from written-off assets” item is due to a non-recurring effect of EUR 1.1m (unexpected payment received as a result of insolvency proceedings).

EUR ’000	2022			
Detailed disclosures: non-substantial modifications	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Net losses due to non-substantial modification of financial assets	-151	-10	-	**-160**
Amortised cost before non-substantial modification of financial assets	65,861	8,961	785	**75,607**

EUR ’000	2021			
Detailed disclosures: non-substantial modifications	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Net losses due to non-substantial modification of financial assets	-841	-548	-1	**-1,390**
Amortised cost before non-substantial modification of financial assets	126,486	30,741	994	**158,221**

The gross carrying amount of “Financial assets – AC” affected by non-substantial modifications that were transferred to Stage 1 during the period was EUR 30thsd as at 31 December 2022 (31 Dec. 2021: EUR 6,864thsd).

The net measurement loss on “Financial assets – mandatorily FVTPL” chiefly arose from remeasurement of the HETA contingent additional purchase price, as well as from other financial assets measured at fair value and reported under “Financial assets – mandatorily FVTPL”. Details can be found in Note 4.7 Fair value disclosures.

The contractual outstanding amount of written-off financial assets that are subject to execution measures was EUR 14,838thsd as at 31 December 2022 (31 Dec. 2021: EUR 15,212thsd).

4.3 Financial assets

Significant accounting policies

“Financial assets – HFT” comprises the positive fair value of derivatives held by the Group as economic hedges and not included in hedge accounting. Additional information on these assets is provided in Note 4.6 Derivatives and hedge accounting.

The category “Financial assets – mandatorily FVTPL” contains financial assets not assigned to either the “hold to collect” or “hold to collect and sell” business models, as well as assets assigned to the “hold to collect” and “hold to collect and sell” models that do not meet the SPPI criteria, meaning that the cash flows do not consist solely of payments of principal and interest at market rates.

The “Financial assets – FVOCI” category comprises debt instruments allocated to the “hold to collect and sell” business model. It also includes equity instruments that are financial instruments as defined by IFRS 9. Internal assessments of these entities found that the Group exercised neither control as defined by IFRS 10 nor significant influence as defined by IAS 28, and they were therefore not measured at fair value as prescribed by IFRS 13.

The Group’s Management Board has made use of its elective right to classify all equity instruments as “Financial assets – FVOCI” under IFRS 9. The justification for this decision was that no significant increase in the value of these holdings is to be expected, and such strategic investments are not held for sale.

The dividend income included in “Financial assets – FVOCI” is reported as a separate item, “Dividend income”, in the statement of comprehensive income.

The “Financial assets – AC” category contains non-derivative financial assets assigned to the “hold to collect” business model, where the cash flows solely represent payments of principal and interest at market rates. Measurement is at amortised cost, less impairment in accordance with paragraph 5.5 IFRS 9 (for detailed information, see Note 4.5 Credit risk and risk provisions; gains and losses are amortised over the remaining lives of the assets using the effective interest method). Interest is reported under Note 4.2.1 Net interest income.

Lease agreements concluded by the HYPO NOE Group as the lessor, which are classified as finance leases, are also included in “Financial assets – AC”. 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 to the lessee, under IFRS 16 the lease is a finance lease; otherwise it is an operating lease. Instead of recognising the asset, the present value of the future lease payments is recognised, 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 finance charge is reported under “Net interest income” (Note 4.2.1).

Estimation uncertainties and judgements

The designation and assessment of business models is on a portfolio basis. The classification of the portfolios is not arbitrary, but must be based on control of the business activities concerned and objectively supportable.

The Group's business models are as follows:

- "Hold to collect" business model

The HYPO NOE Group's loans are normally held to maturity. However, this business model permits a modicum of disposals. In principle, minor asset sales are allowed, as well as instances of significant sales transactions provided that these are unusual and seldom occur. Compliance with this rule is monitored by the regular meetings of the ALM Committee.

In the Group's securities business, the "hold to collect" business model is likewise geared to holding the assets concerned to maturity. The focus is on period-oriented net interest income management. The debt instrument business of all segments other than Treasury & ALM is likewise assigned to this business model since the intention, as with the lending business, is to hold to maturity.

- "Hold to collect and sell" business model

In the HYPO NOE Group, the "hold to collect and sell" business model is currently used solely in the securities business. The purpose of the securities devoted to this business model is both to collect contractual cash flows by holding the financial assets concerned and to sell. Under this business model, significant and regular sales are neither incidental nor unexpected, but are an integral part of the asset management approach. Consequently, there is no compulsion to hold the assets to maturity. Securities are purchased with the intention of holding most of them for three years or longer, and one year at least.

As evidence of adherence to the "hold to collect and sell" business model with regard to significant sales, the Bank has flagged an annual 5% p.a. of the FVOCI portfolio as the internal warning level for the volume of annual security sales. The HYPO NOE Group currently has no loans within the "hold to collect and sell" business model. If such a designation occurs, similar arrangements to those for securities will be made. Monitoring is performed by the ALM Committee. The FVOCI portfolio is regularly assessed and documented with regard to the frequency of sales of assets subject to the "hold to collect and sell" business model.

Taking the measurement category as a starting point, portfolios are classified according to the business model implemented by the business strategy. With few exceptions, financial assets are carried at amortised cost. The business model test identified only a small proportion of these assets 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 market, failed the internal benchmark test and consequently cannot be carried at amortised cost.

Some of these assets are held for earnings diversification purposes, and to reinvest equity ("hold to collect" business model). However, the majority are liquid assets used to manage the liquidity buffer so as to maintain short-term and medium-term liquidity ("hold to collect and sell" business model). In consequence, the financial assets in the nostro portfolio were classified as AC, FVOCI or mandatorily FVTPL. The Group has no assets for which it has exercised the option to designate financial assets as measured at fair value through profit or loss.

The following table presents the HYPO NOE Group's financial assets grouped into classes of financial instrument in accordance with paragraph 6 IFRS 7:

EUR '000	31 Dec. 2022	31 Dec. 2021
Cash and balances at central banks	**184,915**	**1,409,248**
Cash on hand incl. demand deposits	21,749	18,236
Balances at central banks	163,166	1,391,012
Financial assets – HFT	**124,809**	**310,574**
Positive fair value of interest rate derivatives	79,980	285,171
Positive fair value of foreign exchange derivatives	44,829	25,404
Financial assets – mandatorily FVTPL	**122,172**	**149,504**
Loans	52,575	74,636
General governments	1,369	2,005
Other financial corporations	871	1,345
Non-financial corporations	33,672	47,711
Households	16,662	23,574
Bonds	69,597	74,868
General governments	34,847	39,920
Banks	34,750	34,948
Financial assets – FVOCI	**236,890**	**370,575**
Bonds	234,945	368,483
General governments	181,849	302,505
Banks	50,334	57,146
Other financial corporations	2,762	8,832
Equity instruments	1,945	2,092
Other financial corporations	1,500	1,606
Non-financial corporations	445	486
Financial assets – AC	**13,899,591**	**14,053,484**
Loans	12,524,409	12,746,673
General governments	4,318,953	4,107,134
Banks	440,978	554,964
Other financial corporations	214,694	256,708
Non-financial corporations	5,148,954	5,344,950
Households	2,400,830	2,482,917
Bonds	1,375,182	1,306,811
General governments	506,477	573,908
Banks	616,820	475,801
Other financial corporations	210,797	208,568
Non-financial corporations	41,089	48,535
Total	**14,568,377**	**16,293,386**

Further disclosures concerning "Cash and balances at central banks" can be found in the CONSOLIDATED STATEMENT OF CASH FLOWS (section 4 of the consolidated financial statements).

The HETA contingent additional purchase price is included in bonds recognised in the category "Financial assets – FVTPL", under the item "General governments". Further details regarding HETA can be found in Note 4.7.2 Fair value hierarchy: Level 3 disclosures.

Financial assets include EUR 176,321thsd denominated in foreign currency pursuant to section 64(1)(2) Austrian Banking Act (31 Dec. 2021: EUR 203,325thsd).

The companies listed below were recognised as “Financial assets – FVOCI (equity instruments)”.

Company name	Interest	Fair value 31 Dec. 2022	Fair value 31 Dec. 2021
Equity instruments		**1,945**	**2,092**
NÖ Bürgschaften und Beteiligungen GmbH	5.82%	786	886
Hypo-Wohnbaubank Aktiengesellschaft	12.50%	715	716
Hypo-Banken-Holding Gesellschaft m.b.H.	12.50%	328	350
Total		**1,945**	**2,092**

4.3.1 Analysis of financial assets by maturities

The following table shows a breakdown of residual maturities in accordance with section 64 Banking Act:

EUR ’000	31 Dec. 2022	31 Dec. 2021
Financial assets – HFT	**124,809**	**310,574**
Up to 3 months	1,186	198
3 months to 1 year	1,434	2,133
1 to 5 years	39,483	29,507
Over 5 years	82,707	278,736
Financial assets – mandatorily FVTPL	**122,172**	**149,504**
Repayable on demand	275	1,441
Up to 3 months	526	320
3 months to 1 year	32,585	5,017
1 to 5 years	62,893	105,753
Over 5 years	25,892	36,972
Financial assets – FVOCI	**236,890**	**370,575**
Repayable on demand	1,945	2,092
Up to 3 months	-	18,892
3 months to 1 year	18,157	56,053
1 to 5 years	157,951	203,601
Over 5 years	58,837	89,937
Financial assets – AC	**13,899,591**	**14,053,484**
Repayable on demand	116,039	142,901
Up to 3 months	492,001	179,192
3 months to 1 year	1,272,908	1,086,582
1 to 5 years	4,243,072	4,486,239
Over 5 years	7,775,572	8,158,570
Positive fair value of derivatives (hedge accounting)	**388,385**	**302,262**
Up to 3 months	762	432
3 months to 1 year	2,937	15,783
1 to 5 years	86,533	64,234
Over 5 years	298,152	221,813
Other assets	**23,751**	**17,904**
Repayable on demand	11,999	4,867
Up to 3 months	3,356	6,222
3 months to 1 year	1,537	1,203
1 to 5 years	4,164	2,338
Over 5 years	2,696	3,274

Receivables falling due within one year from bonds and other fixed-income securities pursuant to section 64 Banking Act (excluding public debt certificates) stood at EUR 143,172thsd (31 Dec. 2021: EUR 74,868thsd), and those from bonds issued at EUR 1,172,383thsd (31 Dec. 2021: EUR 714,384thsd).

4.3.2 Supplementary information concerning financial assets

Finance leases (with the Group as lessor)

Net investment in finance leases is included under the “Financial assets – AC” item.

EUR ’000	31 Dec. 2022	31 Dec. 2021
Gross investment	**2,620,842**	**2,537,300**
Minimum lease payments	2,380,615	2,295,320
Up to 1 year	198,432	194,226
1 to 2 years	194,587	175,939
2 to 3 years	190,662	170,780
3 to 4 years	184,789	167,014
4 to 5 years	178,683	161,533
Over 5 years	1,433,461	1,425,830
Unguaranteed residual values	240,227	241,979
Unearned finance income	**-528,163**	**-331,385**
Up to 1 year	-61,058	-38,234
1 to 2 years	-57,184	-35,910
2 to 3 years	-53,189	-33,569
3 to 4 years	-49,017	-31,181
4 to 5 years	-44,992	-28,743
Over 5 years	-262,724	-163,747
Net investment	**2,092,679**	**2,205,915**

Regional authorities – primarily the State of Lower Austria and Lower Austrian local authorities – account for around 98% (31 Dec. 2021: 98%) of the finance leases written (as a proportion of assets). The rest of the lessees are business customers, other public agencies or associations. About 96% (31 Dec. 2021: 96%) 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.

EUR ’000	31 Dec. 2022	31 Dec. 2021
Minimum lease payments	2,380,615	2,295,320
Unearned finance income	-528,163	-331,385
Net present value of minimum lease payments	**1,852,452**	**1,963,936**
Unguaranteed residual values	240,227	241,979
Net investment	**2,092,679**	**2,205,915**

Disclosures concerning operating leases concluded by the HYPO NOE Group as lessor and as lessee can be found in Note 6.1 Investment property, intangible assets, and property, plant and equipment.

Transfer of financial assets

The HYPO NOE Group concludes transactions that result in asset transfers. Assets transferred within the Group either remain on the statement of financial position or are derecognised in accordance with paragraph B3.2.1 IFRS 9. Transferred assets are derecognised if substantially all risks and rewards incidental to ownership of the assets are also transferred.

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

	31 Dec. 2022		31 Dec. 2021	
EUR '000	Transferred assets	Related liabilities	Transferred assets	Related liabilities
Financial assets – FVOCI	**214,836**	**116,119**	**264,473**	**305,665**
Bonds	214,836	116,119	264,473	305,665
Financial assets – AC	**1,627,296**	**956,121**	**1,543,339**	**1,856,431**
Bonds	1,118,941	633,494	997,056	1,196,185
Loans	508,355	322,627	546,282	660,246
Total	**1,842,132**	**1,072,240**	**1,807,812**	**2,162,096**

At the HYPO NOE Group, transferred financial assets that are not derecognised mainly relate to loans, as well as pension and securities-lending transactions. The collateral pool for the ECB tender liability comprises securities transferred by depositories and pledged credit claims, which are not treated as transferred financial assets in accordance with paragraph 3.2.4 IFRS 9 in conjunction with paragraph 42A IFRS 7.

There were no pension or securities-lending transactions as at the end of the reporting period. Transferred assets in accordance with paragraph 3.2.4 IFRS 9 in conjunction with paragraph 42A IFRS 7 consisted solely of loans amounting to EUR 86,921thsd (2021: EUR 90,226thsd). The entitlement to regular cash flows from a project loan was divested in order to repay liabilities arising from refinancing; however, the Group retained substantially all of the associated risks and rewards (valid lease agreement).

Securities admitted to trading

The following table shows securities admitted to trading in accordance with section 64(1)(10) Banking Act:

	Listed		Not listed	
EUR '000	31 Dec. 2022	31 Dec. 2021	31 Dec. 2022	31 Dec. 2021
Bonds and other fixed-income securities	897,401	782,572	-	-
Total	**897,401**	**782,572**	**-**	**-**

4.4 Financial liabilities

Significant accounting policies

The category "Financial liabilities – HFT" comprises the negative fair value of derivatives held by the Group as economic hedges and not included in hedge accounting. Additional information can be found in Note 4.6 Derivatives and hedge accounting.

"Financial liabilities – FVO" comprises liabilities for which the option to designate a financial liability at fair value through profit or loss has been exercised, in order to eliminate measurement inconsistencies in accordance with paragraph 4.2.2(a) IFRS 9.

“Financial liabilities – AC” comprises financial liabilities, including bonds in issue, for which the option of measurement at fair value through profit or loss was not exercised.

“Financial liabilities – AC” are measured at amortised cost. Gains and losses on bonds in issue are amortised in accordance with the effective interest method, over the maturities of the liabilities. Interest expense is reported under Note 4.2.1 Net interest income.

Estimation uncertainties and judgements

HYPO NOE Landesbank is participating in the ECB’s Targeted Longer-Term Refinancing Operations (TLTRO) III programme. TLTRO III is a monetary policy intervention whereby, in addition to the average deposit facility rate and the main refinancing business, the ECB offers performance-based interest rate components when specified thresholds are met for accumulated net lending, in “special interest rate periods”. In the Group’s view, TLTRO instruments do not constitute below-market interest rate instruments, but as ECB monetary policy measures they establish a separate market and are essentially variable-rate financial instruments. Therefore the provisions of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance are not applied to these instruments.

Financial liabilities arising from the TLTRO programme are recognised at amortised cost under “Financial liabilities – AC”, in accordance with paragraph 4.2.1 IFRS 9, and amounted to EUR 919,090thsd as at 31 December 2022 (31 Dec. 2021: EUR 2,007,718thsd). Interest income from these liabilities is reported under “Financial assets – AC”, as negative interest expense under the item “Interest and similar income measured using the effective interest method” (see Note 4.2.1 Net interest income), and amounted to EUR 11,293thsd in 2022 (2021: EUR 18,775thsd).

The performance-based interest rate components from the special interest rate periods are reflected in the effective interest rate over the entire term, as a blended interest rate. In June 2022 the OeNB confirmed that the HYPO NOE Group had demonstrated that it meets the criteria for Special Interest Rate Period 2 (June 2021 to June 2022).

In the first half of 2022 the HYPO NOE Group decided to make use of its refinancing options for longer than was originally anticipated. The change in the expected repayment dates was reflected in adjustments of the gross carrying amounts of the revised expected contractual cash flows. In accordance with paragraph B5.4.6 IFRS 9, this adjustment was taken to profit or loss and recognised as an expense of EUR 4,352thsd under “Interest and similar income measured using the effective interest method”.

Published by the European Central Bank on 27 October 2022, Decision ECB/2022/37 modified the conditions for TLTRO III and the dates for voluntary early repayments, and also defined further interest rate periods. The main interest rate period, which ends with the conclusion of the post-ASIRP (additional special interest rate period; i.e. the period after the additional special interest rate period, from 24 June 2022 to 22 November 2022), is followed by the last interest rate period, which runs either until the maturity date or until the early repayment date of the respective TLTRO-III. As with the adjustment of the interest rate parameters on 29 January 2021 (by way of Decision [EU] 2021/124), the HYPO NOE Group believes that this latest recalibration of the market interest rate parameters equates to a re-estimation of cash flows due to changed market conditions, which – in accordance with paragraph B5.4.5 IFRS 9 – led to another adjustment of the effective interest rate, from -0.98% (as at 31 Dec. 2021) to -0.60% (as at 31 Dec. 2022) from 23 November 2022 onwards.

The Group made use of the repayment option on 23 November 2022, repaying EUR 1,100,000thsd. The remaining amounts borrowed, totalling EUR 934,000thsd, will be held until the respective termination or repayment dates.

The following table presents a list of the HYPO NOE Group’s financial liabilities grouped into financial instrument classes in accordance with paragraph 6 IFRS 7:

EUR ’000	31 Dec. 2022	31 Dec. 2021
Financial liabilities – HFT	**103,065**	**289,887**
Negative fair value of interest rate derivatives	59,944	262,252
Negative fair value of foreign exchange derivatives	43,121	27,635
Financial liabilities – FVO	**5,239**	**6,061**
Other financial liabilities	5,239	6,061
Financial liabilities – AC	**13,362,690**	**14,920,835**
Savings and savings-equivalent deposits	1,207,526	1,209,885
Deposits	4,214,540	5,731,364
Banks	2,087,011	3,151,365
General governments	587,957	812,308
Other financial corporations	177,622	449,293
Non-financial corporations	668,820	611,455
Households	693,130	706,943
Bonds in issue	7,940,624	7,979,585
Covered bonds	1,429,479	1,107,930
Municipal bonds	3,257,267	3,769,058
Other bonds	3,253,877	3,102,597
Total	**13,470,993**	**15,216,782**

“Financial liabilities – FVO” comprises a liability related to the HETA contingent additional purchase price. Details can be found in Note 4.7.2 Fair value hierarchy: Level 3 disclosures.

Financial liabilities include EUR 728,791thsd denominated in foreign currency pursuant to section 64(1)(2) Banking Act (31 Dec. 2021: EUR 862,801thsd).

4.4.1 Analysis of financial liabilities by maturities

The following table shows a breakdown of residual maturities in accordance with section 64 Banking Act:

EUR '000	31 Dec. 2022	31 Dec. 2021
Financial liabilities – HFT	**103,065**	**289,887**
Up to 3 months	747	3,563
3 months to 1 year	944	2,093
1 to 5 years	37,049	27,584
Over 5 years	64,325	256,647
Financial liabilities – FVO	**5,239**	**6,061**
1 to 5 years	5,239	6,061
Financial liabilities – AC	**13,362,690**	**14,920,835**
Repayable on demand or no fixed term	2,520,826	2,587,025
Up to 3 months	209,173	320,115
3 months to 1 year	2,472,981	1,468,448
1 to 5 years	3,944,553	6,152,810
Over 5 years	4,215,156	4,392,436
Negative fair value of hedges (hedge accounting)	**683,653**	**615,675**
Up to 3 months	2,985	1,326
3 months to 1 year	14,348	4,143
1 to 5 years	254,682	63,828
Over 5 years	411,638	546,378
Other liabilities	**71,711**	**78,481**
Repayable on demand or no fixed term	3,764	5,212
Up to 3 months	26,894	22,319
3 months to 1 year	9,818	25,098
1 to 5 years	29,470	23,764
Over 5 years	1,765	2,087

4.4.2 Contingent liabilities and unutilised facilities

EUR '000	31 Dec. 2022	31 Dec. 2021
Guarantees and financial guarantee contracts	58,924	70,213
Liabilities arising from guarantees and provision of collateral	**58,924**	**70,213**

"Unutilised facilities" includes both unused loan facilities and revolving borrowing facilities (e.g. overdraft facilities) where there is a strong probability that the unused credit facilities will be used within a contractually specified period. By contrast, credit lines can be used at any time, implying a higher degree of uncertainty with regard to utilisation and the maturity date. The amounts disclosed for unutilised credit facilities include amounts listed in Note 10.4 Disclosures on related-party relationships.

EUR '000	31 Dec. 2022	31 Dec. 2021
Unutilised facilities	1,403,880	1,652,535

4.4.3 Supplementary information on financial liabilities

Mortgage banking in accordance with the *Pfandbriefgesetz* (Covered Bond Act)

31 Dec. 2022, EUR '000	Coverage required for bonds in issue	Coverage of:		Surplus coverage
		Loans	Securities	
Covered bonds	2,738,057	3,043,424	-	305,367
Public sector covered bonds	3,573,825	4,376,612	101,295	904,082
Total	**6,311,882**	**7,420,036**	**101,295**	**1,209,449**

31 Dec. 2021, EUR '000	Coverage required for bonds in issue	Coverage of:		Surplus coverage
		Loans	Securities	
Covered bonds	1,950,580	2,786,388	49,835	885,642
Public sector covered bonds	3,649,417	4,544,346	133,310	1,028,239
Total	**5,599,997**	**7,330,733**	**183,144**	**1,913,881**

EUR '000	31 Dec. 2022	31 Dec. 2021
Assets pledged as collateral		
Cover pool for covered bonds and public sector covered bonds (bond issues)	**7,521,330**	**7,513,878**
Covering loans	7,420,036	7,330,733
Securities	101,295	183,144
Cash	-	-
Marketable collateral (securities) delivered to the collateral custody account with the OeNB (for "Financial liabilities – AC")* **	**1,224,523**	**1,150,180**
Non-marketable collateral (loans) transferred to the OeNB (for "Financial liabilities – AC")*	**411,087**	**456,056**
*OeNB tenders	920,485	2,007,718
Securities pledged to the EIB (for "Financial liabilities – AC")	**87,144**	**87,646**
Loans pledged to the EIB (for "Financial liabilities – AC")	**369,404**	**268,767**
Loans pledged for other deposits (for "Financial liabilities – AC")	**411,245**	**417,478**
Collateral delivered (cash) (for derivatives)	388,061	591,131
Coverage of trustee savings accounts (securities)	**6,614**	**8,000**
Trustee savings accounts requiring coverage***	6,461	6,091
Surplus coverage	153	1,909

******In addition, repurchased covered bonds of EUR 1,100m (2021: EUR 800m) were delivered to the OeNB as collateral, which is not recognised in the statement of financial position due to IFRS offsetting rules

***Furthermore, trustee savings accounts amounting to EUR 57,865 (2021: EUR 35,009) are covered by a state guarantee

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 Landesbank up to and including 2 April 2003. Liabilities incurred between 3 April 2003 and 1 April 2007 were covered by the state guarantee, provided that their maturities did 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 2022, state guarantees of issues, deposits and other liabilities amounted to EUR 103,308thsd (31 Dec. 2021: EUR 115,931thsd) for the HYPO NOE Group.

4.5 Credit risk and risk provisions

4.5.1 Credit risk

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

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

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

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

Sustainability risks are gaining significantly in importance, and have therefore been recognised as a separate key risk sub-category. The HYPO NOE Group has implemented strict internal standards for socially responsible and sustainable business practices. As a result, material aspects of sustainability risk have already been incorporated into its lending processes. These processes will continue to be refined in future. In addition, further sustainability factors related to credit risk will be evaluated and reviewed in detail.

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

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

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

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

Credit risk refers to the risk of a change in creditworthiness. Monitoring it involves keeping a watch on the risk of a deterioration in creditworthiness or, in the worst case, default by the counterparty or guarantor.

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

In the lending business, counterparty risk is the risk of complete or partial loss due to a default or deterioration in the counterparty's creditworthiness. In this case, from the Bank's perspective, credit risk exists over the entire lifetime of a transaction, from the time of its conclusion through to its termination.

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

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

The HYPO NOE Group calculates the capital charge for credit risk (counterparty risk, replacement risk and issuer risk) for regulatory purposes (Pillar 1) using the standardised approach required by Chapter 2 of Title II of Part 3 of the CRR, and applying the "simple" credit risk mitigation method.

The calculation of own funds requirements (unexpected loss) with regard to counterparty risk, replacement risk and issuer risk, as part of Pillar 2 of the Internal Capital Adequacy Assessment Process (ICAAP), is derived from the formulas for the internal ratings-based (IRB) approach set out in Article 153ff CRR.

IRB approach (1 year holding period, 99.9% confidence level), EUR '000	31 Dec. 2022	31 Dec. 2021
Credit risk (counterparty, replacement and issuer risk)	-277,606	-290,787

Credit risk analysis

Lending is the HYPO NOE Group's core business, meaning that assuming and managing credit risks, and keeping them within limits is one of its core competences. Lending activities, the valuation and classification of collateral, and credit ratings are all governed by strategic, organisational and substantive guidelines, the fundamentals of which are embedded in the Group risk manual. These rules also deal with decision-making authorities, credit rating and collateral classification procedures, as well as guidelines for credit risk policy, and lending and loan management processes.

Operating Credit Risk Management is responsible for all activities related to assessing, monitoring, managing and limiting risks associated with on-balance-sheet and off-balance-sheet receivables at the individual customer level.

This department's duties primarily involve checking the form and content of loan applications and providing second opinions. It also has sole responsibility for confirming rating assessments (apart from those in the low-volume retail lending business).

Operating Credit Risk Management also reviews early warning signs (to which it is mainly alerted by Credit Services) in order to spot potential problem customers and initiate countermeasures in good time. Appearance of certain early warning indicators (such as economic or political instability or negative stock exchange announcements) results in loans being designated as "watch loans". All customers with ratings of between 4C and 4E are designated as such. If a customer experiences financial difficulties and concessions are contractually agreed with them, the customer is designated as being subject to forbearance. If the decision is taken to make individual customers the subject of increased monitoring, these customers are also categorised as watch loans. In the event of a significant and lasting deterioration in creditworthiness as compared to the time of initial recognition, the customer concerned is also flagged as "intensive care". All forbearance, watch loan and intensive care customers are monitored more closely, and their cases are generally reviewed on a quarterly basis by the Problem Loans Committee. The committee takes any decisions related to exposure policy. As at 31 December 2022 the volume of designated watch loans stood at EUR 375.3m (31 Dec. 2021: EUR 445.5m). This decrease reflects falls in the level of watch loans across all customer segments, but most of the decline is accounted for by the Treasury/Capital Market/FI control unit. The figures for the previous year were adjusted in light of the new, broader definition of watch loans, which now also includes business subject to forbearance.

Primary responsibility for loans subject to intensive care lies with the front office unit concerned and Operating Credit Risk Management. In certain cases, Intensive Care Management provides support in the form of action plans and attendance at meetings with the customer. The goal of intensive care is to eliminate uncertainty regarding the risk situation, and to reach a decision on whether the exposure can be returned to normal service or needs to be transferred to Intensive Care Management due to increased risk.

If the heightened risk factors must be regarded as lasting, meaning that there is an acute threat to the continued existence of the debtor, or if the exposure threatens to significantly impact the Bank’s risk position due to its size, Intensive Care Management is informed immediately by the front office unit concerned.

Intensive Care Management is responsible for managing distressed loans and Stage 3 impairment gains/losses on financial assets in accordance with IFRS 9.

Credit risk monitoring

Risk monitoring at individual customer level is the responsibility of Operating Credit Risk Management; this involves checking credit ratings, monitoring blacklists drawn up by Credit Services, and processing loan applications that potentially entail significant risks. In addition, relationship managers are required to prepare comprehensive reviews of the current situation for each customer when necessary, and at least once a year, irrespective of the amount of the exposure and the credit rating (the only exceptions are low-risk transactions). The reviews are submitted to the managers with the requisite decision-making authority. Customers who attract notice (where this is relevant in terms of risk) are designated as watch loans and monitored by Operating Credit Risk Management. Where there is a significant deterioration in the risk situation, the exposures become the responsibility of the specialists in Intensive Care Management, who are not involved in front office approval.

Where necessary, an assessment is carried out immediately to determine whether risk provisions for the exposure in question will in future be calculated in Stage 3, using a fully automated or expected cash flow (ECF) method, due to attainment of the significance threshold. If risk provisions for the Stage 3 loan in question are calculated using the ECF method, a decision must be made as to whether an ECF analysis is required immediately, i.e. outside the quarterly process cycle. If not, the risk provisions for the exposure are calculated prior to the next regular ECF process cycle, using the fully automated method. Customers with 5A ratings are transferred to Intensive Care Management in the month following that in which the rating is assigned at the latest.

Lending facilities for own investments, money market investments and derivatives are submitted to the Supervisory Board for authorisation once every half-year. Compliance with these facilities is monitored on an ongoing basis, and regular reports are sent to the Supervisory Board. Such facilities are principally requested for sovereigns, local authorities and regional governments, as well as Austrian and foreign banking groups.

The Strategic Risk Management Department also monitors credit risk at portfolio level. The Management Board is kept informed of changes in credit risks by means of monthly credit risk reports, and regular or ad hoc reports on risk-related issues. The Management Board and senior management receive comprehensive information on the Group’s risk situation, as well as in-depth reports on selected issues, at meetings of the Risk Management Committee (RICO), during which any necessary measures are discussed, agreed and monitored.

Risk concentration

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

Name concentration risk

The concentration in the Public Sector segment reflects the HYPO NOE Group’s strategic focus on Austria, and Lower Austria in particular. The public finance portfolio is essentially granular and mainly comprises loans to sovereigns, state governments and local authorities; here, the emphasis is on finance for social and public infrastructure, and for subsidised home loans.

The concentration risk component of credit risk, as part of Pillar 2 of the ICAAP, is calculated using the granularity adjustment method. The credit risk is calculated using the formulas for the IRB approach, and adjusted by applying a concentration risk factor:

Granularity adjustment (1 year holding period, 99.9% confidence level), EUR '000	31 Dec. 2022	31 Dec. 2021
Concentration risk inherent in credit risk	-32,637	-18,789

The increased risk reflects the amended, more comprehensive presentation of the concentration represented by the State of Lower Austria.

The following table presents the risk volume (not a financial reporting item, but in line with internal risk assessment practices) of the five largest name concentrations (excluding balances at the OeNB), which principally comprise amounts receivable from public sector customers and non-profit housing associations.

EUR '000	31 Dec. 2022	31 Dec. 2021
1	5,636,369	5,531,603
2	235,499	189,550
3	183,101	191,414
4	151,997	147,244
5	149,242	144,345

Country risk

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

Country risk is managed by setting country limits for the target countries, and by limiting the entire outstanding foreign exposures to 20% of total Group assets, as well as limiting foreign lending operations (in the Public Finance, Real Estate Project Finance and Corporate Customers control units) to 8% of total assets (early warning level).

Operating Credit Risk Management oversees utilisation of the individual country limits, while portfolio country limits are monitored at the quarterly RICO meetings.

The table below shows the aggregate risk exposures (in line with internal aggregate banking risk management approaches) of the five largest countries.

EUR '000	31 Dec. 2022	31 Dec. 2021
Austria	13,229,831	14,209,601
Germany	476,996	518,995
Poland	319,953	262,271
Netherlands	229,040	260,936
France	220,106	227,239

Breakdown of the aggregate lending exposure (in accordance with the CRR) by item in the statement of financial position

The table below shows the breakdown of the aggregate lending exposure, which forms the basis for internal portfolio management, by statement of financial position items. In its approach to internal risk management, the Bank takes an economic view of its credit risk exposures, which may not be fully consistent with the IFRS statement of financial position. Exposure at default (EAD) is calculated on the basis of the following premises:

- An empirically determined credit conversion factor (CCF) is applied to determine the aggregate risk exposures (EAD) arising from contingent assets (guarantees and credit facilities).
- The fair value of the items in question is used when determining internal credit risk for securities in the banking book and the small trading book (i.e. all IFRS classes), since risk coverage capital includes hidden reserves and potential liabilities.
- Cash collaterals for derivatives are offset against fair value when determining internal exposures. Credit risk is also calculated for any excess cash collaterals.
- Equity holding exposures are presented as investment risk based on their IFRS classification, in accordance with Article 165 CRR, and are not included in credit risk.

Risk exposure by statement of financial position items	31 Dec. 2022	31 Dec. 2021
Cash and balances at central banks	172,992	1,398,143
Financial assets – HFT (held for trading)	211,501	321,277
Financial assets – mandatorily FVTPL (mandatorily measured at fair value through profit or loss, and not held for trading)	100,959	121,721
Financial assets – FVOCI (measured at fair value through other comprehensive income)	229,967	321,627
Financial assets – AC (measured at amortised cost)	14,482,671	14,042,282
Derivatives – positive fair value of hedges (hedge accounting)	28,531	75,554
Tangible assets	71,190	79,189
Intangible assets	4	9
Tax assets	287	2,429
Other assets	11,277	12,458
Total	**15,309,378**	**16,374,689**
Off-balance-sheet	327,732	306,631
Aggregate risk exposures	**15,637,110**	**16,681,320**

Credit risk management

The tables below correspond to the internal risk monitoring data which is regularly reported to the Management Board and is used for internal aggregate banking risk management (Pillar 2).

The credit risk management system is based on control units, and risk exposure for each control unit is shown in the following table:

Control units, EUR '000	31 Dec. 2022	31 Dec. 2021
Public Finance	7,934,959	8,014,060
Real Estate Project Finance	1,050,103	1,101,444
Treasury/Capital Market/FI/IR	1,857,271	3,045,652
Housing Development	1,895,834	1,811,058
Housing and Commercial Property Austria	439,673	375,807
Retail Customers	1,568,418	1,459,998
Corporate Customers	890,852	873,300
Total	**15,637,110**	**16,681,320**

Credit risk management is also carried out on the basis of credit ratings. The exposures in each rating category are as follows:

Rating categories, EUR '000	31 Dec. 2022	31 Dec. 2021
1A – 1E:	7,329,530	8,356,894
2A – 2E	4,591,202	4,649,802
3A – 3E	3,303,656	3,211,433
4A – 4E	276,293	347,220
5A – 5E	136,429	115,971
Total	**15,637,110**	**16,681,320**

Credit risk management on an economic basis is also applied via the Basel segments shown below. The Basel segments do not correspond to the breakdown used in the Bank's segment information, but instead form the basis for allocations to the risk exposure class in accordance with Article 112 CRR. The table below provides a breakdown of risk exposures by Basel segment:

Basel segments, EUR '000	31 Dec. 2022	31 Dec. 2021
Banks	951,849	803,481
Sovereigns	677,535	2,033,577
State governments and local authorities	4,391,904	4,271,042
Multilateral development banks	43,586	35,875
International organisations	28,672	33,746
Public sector enterprises	545,649	522,747
Special purpose finance (income producing real estate [IPRE] and project finance)	1,610,137	1,602,951
Corporates	5,027,174	5,065,830
Retail customers	2,269,691	2,212,098
Religious communities	1,963	71,320
Associations, insurance companies and leasing companies	88,950	28,654
Total	**15,637,110**	**16,681,320**

Credit risk mitigation

The key determinants of credit risk, and thus of the prescribed capital charge for a loan, include the borrower's creditworthiness and collaterals. To benefit from the available credit risk mitigation techniques, the minimum requirements specified in the Group collateral manual must be met. These relate both to the type of collateral furnished and to the internal processes.

The collateral list shows all permissible forms of collateral in the HYPO NOE Group. The principal categories of CRR-compliant collateral that are relevant to the HYPO NOE Group are guarantees (mainly public sector), mortgages and pledges. A considerable proportion of the Group's total lending relates to the purchase of subsidised homebuilding loans from the State of Lower Austria. Most of this exposure is secured by a guarantee from the State of Lower Austria, while the remainder is collateralised by means of pledged cash deposits. The policy on collaterals has remained unchanged since last year.

The measurement and classification of collateral are subject to strict organisational and substantive rules. Throughout the Group a distinction is made between collateral recognised for regulatory purposes and its economic value. Usually, the relationship manager checks the legal status and the economic value of the collateral – with particular reference to the current market environment – when the initial loan application is made, at least once a year when the application is resubmitted, and whenever circumstances require. Operating Credit Risk Management checks the information, assumptions and underlying parameters as part of the credit review process.

The HYPO NOE Group determines the fair value of mortgage collateral in compliance with the applicable statutory regulations and standards. The Group uses established valuation methods and software for this purpose. Depending on the type of property concerned, the methods employed include the income approach, the comparative value approach, the cost approach, the discounted cash flow method, or a combination of approaches. Standard residential properties are valued by means of an automated, statistically validated system. The relationship manager inputs the property data required for the valuation. The operational department responsible assesses these valuations on the basis of a random sample. Specially trained and, in some cases, certified assessors value other forms of real estate collateral. If necessary, valuations are performed by externally certified property valuers, and their plausibility is checked internally. As of 31 December 2022, the Group had not identified any lasting negative effects on its real estate portfolio resulting from the various crises playing out at that time. The impact of rising finance and management costs will only become measurable in the course of 2023. Recent forecasts suggest a slight downturn in the real estate market.

Property collaterals are initially valued as part of the credit rating process, or in all events prior to disbursal of a loan. Collaterals are then tested for impairment annually and, where necessary, revalued. In addition, collateral values are index-linked and reviewed annually on the basis of market data. One-off revaluations of real estate collaterals occur if an exposure is classified as a non-performing loan and:

- the valuation is out of date; or
- was made using an automated process; or
- there are suspicions of a material change in value.

Collaterals on a property are revalued annually as long as the exposure is classed as non-performing. Furthermore, one-off valuations of commercial properties are carried out if, since the previous valuation:

- the vacancy rate has increased by ten percentage points, or
- net rental income has fallen by 15%, or
- an anchor tenant is insolvent, and space has not been let to a new anchor tenant within the past six months.

The residual risk arising from the use of credit risk mitigation techniques is the danger that recognised risk mitigation techniques employed by the Bank will be less effective than expected. This relates to the approaches adopted, the valuation arrived at, and the enforceability of collaterals. This risk is addressed by setting mortgaging values and losses given default (LGDs). The mortgaging values contained in the collateral list include discounts on the fair value or nominal value arrived at by means of the collateral valuation process. The discounts reflect the risks associated with valuation and realisation.

Current credit risk situation

The Group's loan and investment portfolio largely consists of risk-conscious 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 commercial developers).

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

Non-performing loan (NPL) coverage is a key performance measure for banks in connection with financial assets in default. NPL coverage is defined as total Stage 3 risk provisions plus collaterals, divided by the sum of the gross carrying amounts of NPLs (financial assets – AC [excluding banks]). Coverage for the Group as at 31 December 2022 was 89.0% (31 Dec. 2021: 88.8%).

Ongoing development of the credit risk management system involves: enhancing processes for managing high-risk cases (watch list, continuous evaluation of impairment losses, and forbearance); tighter monitoring; and active portfolio management (increasing portfolio granularity, risk transfer, risk concentrations, and improving the structure and concentration of collateral).

Effects of current crises

A one-off review was carried out in order to determine whether borrowers have been materially and directly impacted by the war in Ukraine. The HYPO NOE Group does not have any direct lending exposures in Russia or Ukraine. The impacts of the current crises (such as rising energy prices, interest rate increases and supply chain disruption) were also analysed and included in the rating review.

Investment risk

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

Investment risk is managed by acquiring equity holdings which serve the Group’s primary business objectives and are supportive of its strategic alignment. Other control levers include measuring investments against internal models, and acting on the results of the analysis, as well as constantly monitoring existing holdings at portfolio and customer level.

The calculation of own funds requirements (unexpected loss) in order to determine investment risk as part of Pillar 2 of the ICAAP is derived from formulas for the IRB approach set out in Article 153ff CRR. However, use is also made of the minimum parameters for probability of default (PD), LGD and remaining maturity in accordance with Article 165 CRR.

IRB approach (1 year holding period, 99.9% confidence level), EUR ’000	31 Dec. 2022	31 Dec. 2021
Investment risk	-9,508	-8,984

Customer foreign exchange risk

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

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

The calculation of the own funds requirement (unexpected loss) with regard to customer foreign exchange risk, as part of Pillar 2 of the ICAAP, is carried out in two stages. The potential increase in lending volume is arrived at using a variance-covariance value at risk approach based on the volatility of the exchange rate in question. The unexpected loss resulting from this increase in lending volume is calculated using the IRB approach set out in Article 153ff CRR.

Variance-covariance VaR, IRB approach (1 year holding period, 99.9% confidence level), EUR ’000	31 Dec. 2022	31 Dec. 2021
Customer foreign exchange risk	-1,319	-1,694

The rating structure of receivables exposed to customers’ Swiss franc exchange rate risk is as follows:

EUR ’000	31 Dec. 2022	31 Dec. 2021
Investment grade	148,226	161,335
Non-investment grade	50,710	60,074
Default	6,454	7,574
Total	**205,389**	**228,984**

The largest exposure in the investment grade category relates to a company linked to the State of Lower Austria. The non-investment grade category largely consists of private housing finance. Lending exposed to Swiss franc exchange rate risk was further reduced in 2023.

Other subtypes of credit risk

Repayment vehicle risk refers to the risk of the emergence of a hedging gap due to adverse market developments affecting the repayment vehicle. This type of risk is quantified when calculating risk-bearing capacity, and is hedged using equity (including limits).

Customer fixed interest risk consists of the risk that hedging will lead to losses on structured and fixed-interest loans. It is regularly monitored by Asset Liability Management (ALM). This form of risk is limited and managed by monitoring the counterparty’s parameter rating (in order to assess the probability of default) and the present value of hedging transactions.

Lease residual value risk is the risk that it will not be possible to realise the full calculated residual value of a leased asset. Operating Credit Risk Management performs regular monitoring of residual value risk exposures, mainly identifying lessees or types of real estate where residual value without purchase options may arise, as well as the possibility of disposal of assets to third parties, the strategic significance of a property for the lessee in question, and the time to maturity of the residual value.

Migration risk refers to the risk of a deterioration in a debtor’s creditworthiness resulting in an increase in the probability of default and a consequent downgrading of the customer’s credit rating. It is countered by providing additional equity cover, using the buffer, as part of the risk-bearing capacity calculation. In addition, potential effects of migration on profit or loss and on capital requirements are taken into account using scenario assumptions and sensitivities as part of bank-wide and reverse stress tests. Migration matrixes are used for the ongoing monitoring of rating changes in the finance portfolio in the course of regular reporting.

Settlement risk comprises prepayment risk and clearing risk. Prepayment risk is the risk that consideration will not be received at the agreed time. Clearing risk is the risk of changes in fair value when a transaction is not completed on the due date. Settlement risk is limited and managed by setting and regularly monitoring volume limits for risk exposures. Settlement limits are reduced accordingly when they are no longer necessary.

Sustainability risks relate to events or circumstances that have an impact on sustainability (i.e. in connection with environmental, social and employee-related matters, and respect for human rights, as well as anti-corruption and anti-bribery measures) where their occurrence has or can potentially have significant negative effects on asset values, or on a business’s assets, finances, earnings or reputation. As far as credit risk is concerned, sustainability risks are currently limited and managed using inclusion and exclusion criteria, and by identifying environmentally and socially sensitive sectors (where the Bank has a greater duty of care), which form the basis for decision making in the loan approval process.

4.5.2 Risk provisions

Significant accounting policies

Calculation method for Stage 1 and 2 expected credit losses

The following inputs are used to calculate expected credit loss (ECL) over time in Stages 1 and 2 (the process is fully automated):

- Exposure at default (EAD)
- Probability of default (PD)
- Loss given default (LGD) for the uncollateralised or collateralised portion
- Credit conversion factor (CCF)

EAD represents the expected exposure at the time of default. EAD is divided into a collateralised and an uncollateralised portion for each individual transaction. The uncollateralised portion is calculated as EAD less the aggregate value of collaterals. To determine exposure at risk (EAR), the uncollateralised portion is multiplied by the LGD to give the uncollateralised portion, and the value of collaterals by the LGD for each collateral. LGD represents the expected loss in the event of default relative to EAD.

The impairments to be recognised in Stages 1 and 2 are determined by aggregating the products of the multiplication of monthly marginal PD by the applicable exposure at risk for a period of up to one year (Stage 1) or for the remaining maturity (Stage 2).

The simplified impairment model described in paragraph 5.5.15 IFRS 9 is applied to trade receivables that do not contain a financing component. For these receivables, impairment losses are measured at an amount equal to the lifetime expected credit losses. The receivables are therefore assigned to Stage 2.

Calculation method for Stage 3 expected credit losses

Impairment losses/gains on financial assets in Stage 3 are calculated either automatically or using the expected cash flow (ECF) approach. Both processes are carried out at the individual customer level. The fully automated procedure is used for non-significant customers. The method used is virtually identical to Stage 2, with the exception that only a monthly allowance is calculated, as the probability of default is 100%.

The ECF approach is adopted for significant customers that are in default in Stage 3. Customers are classified as significant if total loans, advances and off-balance-sheet items exceed EUR 150thsd. The risk provisions recognised represent the difference between the gross carrying amount of the asset and the present value of expected future cash flows. The scenario-weighted impairment loss is calculated on the basis of the expected recoveries, taking the expected realisation of collateral into account.

Estimation uncertainties and judgements

Rating models

The HYPO NOE Group uses various rating modules to regularly assess customers' creditworthiness, as a variety of financial indicators and assessment criteria are available and appropriate for the accurate evaluation of a multiplicity of exposures. Allocation to given rating modules and models depends on the customer group concerned.

For retail customers, the Group currently employs an applications rating procedure together with behaviour rating for ongoing evaluation. With corporate customers, allocation principally depends on whether they use accrual accounting, whether they prepare accounts on a cash basis, and whether they are start-ups. Various rating modules, with given statistical and qualitative parameters, are applied accordingly. Companies using accrual accounting are further broken down by operating revenue and risk-related dependence on the personal circumstances of the business owner. Behaviour ratings are used for ongoing assessment of businesses that are obliged to prepare accounts on a cash basis and for small businesses that use accrual accounting. Separate rating modules are employed for local authorities, banks and commonhold associations under the Austrian *Wohnungseigentumsgesetz* (Home Ownership Act). Customers that do not match any rating module are rated in accordance with expert opinions based on analyses of internal and external information.

Inputs

Credit assessments are based on quantitative and qualitative information. The main quantitative inputs for the rating modules are annual financial statements and details of household budgets, as well as – in the case of automated credit ratings – account and customer data, in particular overdraft figures, dunning levels and use of lending facilities. When assessing a business's creditworthiness, the qualitative factors considered include details of the trading and industry environment, corporate strategy, management and investor relations. Regarding retail customers, key inputs include the duration of the individual's current employment and level of qualifications.

If other relevant and material information is available for the rating, justifiable transfers between rating categories can be carried out at the end of the process. Reasons for such transfers include intra-year publications that result in a change in the risk assessment, unusual changes in future order volumes, or risks arising from unusual concentrations and the resulting dependence on certain customers or suppliers.

Here, the Bank also systematically takes into account the impacts of the Covid-19 pandemic on customers' current creditworthiness; this approach was first applied to the annual financial statements as at 31 December 2020. The gradual withdrawal of government support measures from the second half of 2021 onwards has resulted in fewer distortions in annual financial statements and financial data. Consequently, systemic downgrades have no longer been applied in customer reviews carried out since 1 January 2022. The systemic downgrades that are still applied are based on the same methodology as that used when preparing the financial statements for the year ended 31 December 2021.

Rating process

Customers are subject to a regular rating process from conclusion of a transaction. When preparing a rating in response to an application in connection with a transaction or customer review, the market-facing units submit a rating proposal which is then confirmed and approved by Operating Credit Risk Management. In the case of retail customers, the rating is approved by a staff member with the necessary decision-making authority. With the fully automated behaviour rating models, the current rating is generated on a quarterly basis and automatically fed into the Bank's systems.

Ratings generated using all other processes are usually updated at least once a year, in accordance with the statutory requirements. In addition, in the event of a one-off evaluation of the risk associated with certain exposures, the rating is updated immediately if the Bank becomes aware of information from internal or external sources that suggests a significant deterioration in the risk assessment of the exposure in question. Such information includes updated external ratings, changes that occur in the course of entering details in the register of companies or the property register, entries in the warning list, and subsequent registrations with Kreditschutzverband von 1870.

Ratings must be based on the latest financial documentation and prepared promptly after the documentation becomes available. Financial documentation with a reporting date more than 19 months in the past, and more than 22 months in the case of entities that prepare accounts on a cash basis, may only be used to prepare a rating in exceptional cases, subject to approval by Operating Credit Risk Management. In such cases, Operating Credit Risk Management sets a period of less than 12 months until the next review takes place.

Financial documentation and all other risk-related documents must be submitted in German or English, or in the form of a certified translation into one of those languages, and must provide sufficient information and be of sufficient quality. If an entity has not disclosed any information, the Bank will generally refrain from concluding or prolonging a transaction.

As a rule, ratings of group companies may not be higher than that of the group parent. Exceptions to this principle are only possible in exceptional cases with good reason, and decisions are taken in consultation with Operating Credit Risk Management.

Collaterals are not considered in the rating, with the following exceptions:

- Rating systems that use the slotting approach (IPRE and project finance) assess the customer's overall credit risk and not just the probability of default
- Guarantees which can be invoked before a customer defaults may also be considered when preparing the rating

Internal rating: HYPO master scale

The internal risk management system and the classification of customers by creditworthiness in accordance with the annual probability of default employs the 25-step HYPO master scale, which is shown in condensed form below.

	HYPO NOE Group master scale	PD reconciliation	
Grade	**Rating grade**	**Moody's**	**S&P**
Investment	1A – 1E:	Aaa – A1	AAA – A+
	2A – 2E	A2 – Baa3	A – BBB-
Non-investment	3A – 3E	Ba1 – B2	BB+ – B+
	4A – 4B	B3 – Caa1	B
	4C – 4E	Caa2 – C	B- – C
	5A – 5E	D	D

Determining the initial rating

Depending on the time of recognition of the transaction, the historic rating tables must be considered in order to identify the corresponding customer rating. Subsequently, where necessary, rating information that cannot be used to determine the initial rating of a transaction (e.g. duplicate ratings or incorrect rating grades) is deleted from the rating data sets.

In general, the most recent rating up to 359 days prior to initial recognition of the transaction is taken as the initial rating in accordance with the updated rating table. Consideration is also given to including a 29-day grace period in the period after recognition of the transaction. If no rating is available within this period, the first rating after the initial recognition of the transaction is applied as the initial rating. It is subject to the following criteria:

- If the first available rating for a retail customer is more than three months after recognition of the transaction, or
- if the first available rating for all customer groups is more than one year after recognition of the transaction,

this rating is not accepted as a valid initial rating, and the transactions in question are allocated to Stage 2 in accordance with IFRS 9. The limits of three months and one year for assigning a valid initial rating after recognition of a transaction were set in accordance with internal rating processes. Updates of retail customers' ratings are carried out automatically on a quarterly basis by means of a behaviour rating; other customers are generally subject to an annual rating review.

In the case of securities, starting with the customer reference number and the date of initial recognition of the transaction (purchases are reported separately as at the initial recognition date), a rating table is used to determine the rating; a rating within a period of between 719 days before and 29 days after a transaction is classed as valid.

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 due to financial difficulties. Forborne exposures are those that satisfy both of the following conditions:

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

Forbearance concessions may be made to debtors in the performing rating grades (1 to 4) and the non-performing grade (5). A debtor continues to be rated as performing if the forbearance concessions do not result in reclassification as non-performing and the loan was not non-performing at the time of the concessions.

Forborne exposures not classified as non-performing are subject to a regular review process and are also monitored as part of the early warning and event system.

Transactions subject to forbearance measures which are in a probation period and have previously been in default are closely monitored in case the account falls into arrears for longer than 30 days.

This ensures that transactions which were previously in default and are currently subject to forbearance measures are classified as non-performing as soon as:

- The desired outcome of forbearance (restored compliance with terms and conditions) is not achieved or can no longer be expected to be achieved
- The customer meets another of the predefined criteria for non-performance
- Where the customer has previously been in default, the account has been in arrears for more than 30 days or a new forbearance measure is necessary

Where forborne exposures are already classified as non-performing they are constantly monitored as part of the strategy for intensive care cases.

As a general rule, risk provisions are calculated for all Stage 2 forborne exposures not classified as non-performing. Risk provisions are recognised in Stage 3 for forborne exposures that have been classified as non-performing.

The following conditions must be satisfied for forbearance status to be lifted:

- An analysis of the debtor’s financial position leads to the conclusion that the debtor can meet its financial liabilities
- The loan/bond is classified as performing
- The probation period of at least two years after classification as performing 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 main forbearance measures in 2022 were rescheduling, maturity extensions and refinancing measures.

EUR ’000	31 Dec. 2022	31 Dec. 2021
Forborne exposures as at 1 Jan.	**84,065**	**116,782**
Additions (+)	22,685	5,049
Exits (-)	-51,460	-37,767
Forborne exposures as at 31 Dec.	**55,289**	**84,065**
Related interest income from existing receivables recognised in profit or loss	1,556	1,657
Related risk provisions	-12,352	-14,902

Presentation includes both forborne instalments and arrears. There were no significant cases of derecognition as a result of forbearance measures in 2022. Most of the reduction was due to repayments. Unlike the NPL portfolio, the tables below include all assets in respect of which forbearance measures were taken, even where these did not lead to Stage 3 classification at the level of individual exposures.

Geographical analysis

EUR ’000	31 Dec. 2022	31 Dec. 2021
Domestic customers	**39,109**	**66,725**
Foreign customers	**16,180**	**17,340**
CEE	1,084	4,123
Rest of the world	15,096	13,216
Total	**55,289**	**84,065**

Rating class analysis

31 Dec. 2022, EUR ’000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Rating class 2	877	-	-	877	876
Rating class 3	4,354	-	-	4,354	4,169
Rating class 4	19,247	43	-	19,290	17,242
Rating class 5	25,492	337	4,940	30,769	9,394
Total	**49,970**	**380**	**4,940**	**55,289**	**31,680**

31 Dec. 2021, EUR ’000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Rating class 2	91	-	-	91	90
Rating class 3	22,542	10,113	-	32,655	20,241
Rating class 4	24,373	1,927	-	26,299	23,208
Rating class 5	10,351	297	14,372	25,019	11,650
Total	**57,356**	**12,336**	**14,372**	**84,065**	**55,189**

Maturity analysis

31 Dec. 2022, EUR ’000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Financial assets – AC (Stage 1)	-	-	-	-	-
Financial assets – AC (Stage 2)	24,030	43	-	24,073	21,929
Financial assets – AC (Stage 3)	25,212	337	4,937	30,485	9,114
Financial assets – mandatorily FVTPL	728	-	4	732	638
Total	**49,970**	**380**	**4,940**	**55,289**	**31,680**

31 Dec. 2021, EUR ’000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Financial assets – AC (Stage 1)	1,104	-	-	1,104	-
Financial assets – AC (Stage 2)	45,335	12,025	-	57,359	43,062
Financial assets – AC (Stage 3)	9,831	297	14,363	24,491	11,208
Financial assets – mandatorily FVTPL	1,086	15	8	1,110	919
Total	**57,356**	**12,336**	**14,372**	**84,065**	**55,189**

Payment deferrals and bridging loans

When considering whether to grant a payment deferral, a forbearance review is carried out. Detailed information on such reviews can be found in the section entitled “Forbearance”, above.

The remaining payment deferrals and bridging loans extended in connection with Covid-19 support measures amounted to less than EUR 10m at 31 December 2022.

Financial instruments for which there has not been a significant increase in credit risk (Stage 1)

Regardless of the rating, new business is usually allocated to Stage 1. As soon as credit risk increases significantly compared with the risk at the time of conclusion of the transaction, the instrument is transferred to Stage 2. The qualitative and quantitative triggers that result in a transfer to Stage 2 are described below.

Financial instruments for which there has been a significant increase in credit risk (Stage 2)

The HYPO NOE Group uses quantitative and qualitative indicators to determine whether there has been a significant increase in credit risk (SICR). Individual and collective analyses and information are taken into account.

The quantitative staging factor compares the residual probability of default for the remaining term of the asset as at the reporting date with the forward-looking PD for the same term estimated on initial recognition. This means that the following two PDs are compared:

- The lifetime PD of the financial instrument (from the current date to the end of the contractual term) given the current assessment of the customer’s creditworthiness
- The lifetime PD of the financial instrument (from the current date to the end of the contractual term) implied by the assessment of the customer’s creditworthiness at the time of initial recognition of the asset

If the first lifetime PD is significantly higher than the second, the financial instrument is assigned to Stage 2. The quantitative staging criterion establishes a threshold, over and above a predefined staging factor, that leads to a stage transfer. As the starting point for determining the staging threshold, a three-notch deterioration in the credit rating has been classified as significant. This threshold is subsequently calculated for each customer group, rating level, lifetime and remaining term. This is done by comparing the cumulative lifetime PD of the initial rating with the same lifetime PD minus three notches. As multi-year cumulative lifetime PDs do not increase in a linear fashion over time, there are different staging thresholds for the lifetimes and remaining terms, depending on the PD curve for a given customer group and rating. The staging factor threshold determined by the customer group, lifetime and residual maturity is compared with the current staging factor (the rate of change in the PD) for each transaction. A stage transfer takes place if the threshold is exceeded. The threshold bands resulting from the model are shown in the following table.

	31 Dec. 2022			31 Dec. 2021		
	Min.	Max.	Median	Min.	Max.	Median
All	130%	355%	185%	130%	355%	183%
Retail	145%	238%	190%	145%	245%	188%
Corporate	140%	225%	178%	141%	225%	175%
Institutions	130%	225%	169%	130%	225%	169%
Sovereign	137%	355%	229%	137%	355%	229%

Qualitative SICR indicators comprise: forbearance measures; whether payment is 30 days past due; whether the customer is subject to intensive care measures; customers unrated at the reporting date; and early warning indicators (to the extent that these are not already adequately reflected in the rating).

The overall evolution of the macroeconomic conditions affecting the sector or customer segment concerned is also considered when assessing whether a stage transfer is required. In the annual financial statements as at 31 December 2021, the changes in the Swiss franc exchange rate and the Covid-19 crisis were the most important macroeconomic events affecting the Bank’s loan portfolio. At present, the main macroeconomic influences are related to the consequences of the pandemic and the war in Ukraine. Inflation and rising prices, supply bottlenecks, increasing interest rates and the threat of a wage-price spiral have been identified as the main risk drivers. With these in mind, a one-off analysis of the Bank's lending portfolios was carried out, which gave rise to the following measures:

- **Measures related to CHF-denominated loans and loans with repayment vehicles**
  The HYPO NOE Group believes that there are still indications of a significant increase in the credit risk associated with CHF loans and loans with repayment vehicles in the retail segment, as compared with the time of conclusion of the transactions concerned, in view of the deterioration in the EUR/CHF exchange rate and the performance of repayment vehicles over time. The loans in question have been transferred to Stage 2. The effects on the risk provisions in Stages 1 and 2 are shown under Sensitivity 5 in the "Scenarios and sensitivities" section below.
- **Measures related to increases in construction costs**
  Construction loans extended to retail customers and for property developments over the past two years (up to and including 30 June 2022) were transferred to Stage 2 in cases where a portion of the loan remained unused and there was a material risk of an overrun in building costs. There has not been a significant increase in credit risk on new lending agreed since 1 July 2022 compared with the time of conclusion because macroeconomic developments had already been taken into account when the loans were approved. The effects on the risk provisions in Stage 1 and 2 are partly included under Sensitivity 4 in the case of lending for property developments and under Sensitivity 5 for loans to retail customers, in the "Scenarios and sensitivities" section below.
- **Measures related to other macroeconomic risk drivers**
  Regarding lending for property developments, the impact of current macroeconomic conditions on individual loans was analysed and, where there were grounds for doing so, the loans were transferred to Stage 2.

  The other loans were initially subjected to a collective assessment forming part of an industry benchmarking process. Here, credit risk and ESG risks associated with future developments in the industries concerned were evaluated in terms of quantitative (empirical and statistical) and qualitative (expert opinions) criteria. Individual loans extended to industries that scored poorly overall in the evaluation were analysed and transferred to Stage 2 where appropriate. The following industries were given poor overall scores:

  - Agriculture, forestry and fisheries
  - Energy supply – non-sustainable
  - Manufacture of chemical products
  - Coking and oil processing
  - Manufacturing industries/goods production

  The effects on the risk provisions in Stage 1 and 2 are partly included under Sensitivity 4 in the case of lending for property developments, and under Sensitivity 5 for the above industries (see "Scenarios and sensitivities" below).
- **Measures related to increases in interest rates**
  The past few years have been marked by low interest rates. The 3-month EURIBOR fell below the 0% mark in 2015 and remained there until July 2022. Until September 2022 a relatively low stressed interest rate was assumed in loan application processes. EURIBOR rates have since risen sharply, driven by the interest rate increases implemented by the ECB with the aim of reining in inflation. The HYPO NOE Group believes that there are definite indications of a significant rise in the credit risk associated with variable-rate loans extended to retail and corporate customers between 2015 and September 2022, as compared with the time of conclusion of those loans, owing to the increase in repayments. As a result, the loans in question have been transferred to Stage 2. However, this does not apply to lending to non-profit housing developers, as the increased repayments are passed on directly to end customers, and neither does it apply to financing for corporates with links to the public sector. Regarding property developments, the effects of higher repayments were analysed on a case-by-case basis, using the debt service coverage ratio (DSCR). In the event of a material deterioration in the DSCR, the affected customers were transferred to Stage 2.

  The effects on the risk provisions in Stage 1 and 2 are shown under Sensitivity 1-3 in the "Scenarios and sensitivities" section below.

All other qualitative staging measures directly related to the Covid-19 pandemic and applied in the annual financial statements for the past few years were discontinued with effect from 31 December 2022 due to the tailing off of the pandemic and the lifting of official restrictions, as well as the updated assessments described above and the measures adopted as a result.

When a trigger event induces a stage transfer, retransfer only takes place if the event in question no longer applies. In Stage 2, there are generally no good conduct periods with the exception of the forbearance measures. In the case of the latter, there is a two-year probation period before the event is deemed to be voided.

Financial assets with impaired credit quality (Stage 3)

Financial instruments with impaired credit quality (i.e. in default) in accordance with the definition of default given in Article 178 CRR are allocated to Stage 3. A borrower is considered to be in default if one or both of the following criteria are met:

- A material liability of the borrower is 90 days overdue
- The Bank believes it is unlikely that the borrower will fully repay its liabilities (unlikeliness to pay)

The following indicators are assumed to suggest that the borrower meets this second criterion:

- Third unsuccessful reminder
- Insolvency: daily search of and checking against list of newly opened insolvency proceedings
- Deterioration in financial position: ongoing assessment of creditworthiness as part of the review and rating process performed by the Operating Credit Risk Management Department and sales units
- Insufficient expected cash flow: identification by Operating Credit Risk Management
- Significant financial difficulties on the part of the issuer or borrower
- Breach of contract or breach of trust
- Execution of collateral by a third party
- Disappearance of an active market for the financial asset because of financial difficulties
- Negative entry in a public register
- Reforbearance measures taken

The following indicators are also applied to corporate loan agreements:

- Acute liquidity bottlenecks
- Termination of credit lines by other lenders
- Requests for additional collateral from other lenders
- Equity used up in connection with losses
- Operating losses incurred, but only non-recurrent income due
- Impairment of collateral
- Objections to bills of exchange or cheques, rejection of debit notes
- Payments to collection agencies, attachments
- Severe management problems (e.g. frequent replacement of managers, succession not clearly planned)
- Several simultaneous warning signals, e.g. payment arrears, frequent overdrafts and suspect account movements
- Planned payment of a large fixed amount due at the end of the repayment schedule
- Irregular schedule of repayments, with significantly smaller payments planned at the start of the repayment schedule
- Significant grace period before the start of the repayment schedule

In many cases, it is not a single event, but the combined effect of several events that causes a deterioration in an individual customer's creditworthiness. Close cooperation between the sales units, Operating Credit Risk Management and Intensive Care Management ensures that customers with compromised creditworthiness are identified in good time.

When calculating the necessary risk provisions using the ECF approach, up to three different scenarios are generated and weighted, depending on the servicing status of the customer in question. This yields the current level of risk provisions required for the customer's various credit facilities.

The HYPO NOE Group has defined the following three basic scenarios:

- Contractual cash flow scenario: in this scenario, only cash flows of principal and interest arising from contractual agreements over the entire residual term of the loan are recognised. Income from the potential realisation of collateral is not considered. When estimating the level of cash flows, it is assumed that these will be received in

full over the entire residual maturity of the transaction.
- Going concern scenario: here, it is assumed that the customer will pay the principal and/or interest for at least three more years and that the realisation of available collateral will only begin after three years. Until that time, no steps will be taken to collect the outstanding amount. Realisation begins after three years. Consequently, cash flows from payments of principal and interest, as well as from the realisation of collateral are taken into account in this scenario.
- Gone concern scenario: in the gone concern scenario it is assumed that the customer has ceased to make payments and the outstanding loans and receivables can be covered from the realisation of the collateral furnished. The realisation period is determined by the collateral class. Usually, only cash flows from collateral realisation are recognised in this scenario.

When determining the risk provision for an individual customer, various servicing statuses may apply. The servicing status depends on the customer’s contractual position. The status indicates that given scenarios are more likely, or that they are no longer relevant. For this reason there are a variety of weightings, which are determined by the servicing status. Changes to these weightings are only permitted in exceptional cases, and reasons must be given.

Purchased or originated credit-impaired (POCI) financial assets

POCI assets are financial assets for which there is objective evidence of impairment on initial recognition. The HYPO NOE Group has defined the following conditions that are intended to help identify whether there is actually objective evidence of impairment for a particular financial asset:

- Purchase of a financial asset at a price that reflects a significant rating discount.
- Purchase of new instruments (fresh money or bridge loans) that leads to a significant increase in exposure from the uncollateralised portion, while intensive care management is still in the initial stages, meaning that there is a high degree of uncertainty regarding a cure.
- Substantial modification of a Stage 3 financial asset, leading to the derecognition of the original instrument and recognition of a modified, impaired instrument (“originated credit-impaired”).

In the course of initial measurement of a POCI asset, the expected cash flows are discounted using a credit-adjusted effective interest rate (Ca-EIR). This present value represents the carrying amount of the POCI asset on initial recognition in accordance with IFRS. No risk provisions are recognised at the time of initial recognition. However, risk provisions are recognised on subsequent measurement for both positive and negative deviations from the present value.

Depreciation, amortisation and impairment

Receivables and securities that are more likely than not to be unrecoverable must be partly or entirely derecognised. Receivables are unrecoverable if at least two attempts at execution have failed, it has not been possible to trace the customer’s place of residence for a considerable period, or the customer has no attachable income or has such high liabilities that there is no prospect of collection. Receivables and securities must also be partly or entirely derecognised if they have been partly or entirely waived. This may be the case if there is a rescue or payment plan, or a bank account attachment in connection with bankruptcy, a composition agreement or an instalment agreement.

Cure

A cure is where an intensive care customer transitions from a non-performing (i.e. from 5A downwards) to a performing rating grade. The following minimum requirements are decisive:

- The exposure is performing in accordance with the regulatory forbearance requirements
- None of the customer’s loans or receivables are in arrears or overdue.
- The reason or reasons that triggered the default event have no longer applied for an extended period. Intensive care customers must also meet all of the following criteria, regardless of the initial default event:
  - Obligations arising from the loan agreement are duly fulfilled for the following minimum periods after restructuring:
    - Six months in the case of monthly repayments
    - Nine months in the case of quarterly repayments
    - 12 months in the case of half-yearly repayments
      - Retail customers

        - Positive household budget
    - All other customer groups
        - Two successive sets of annual financial statements (statement of financial position, or receipts and payments statement) showing an operating profit
        - Realistic prospects of long-term debt service from cash flow
- Improvement in the customer’s financial situation
- No other indications of impaired creditworthiness

Pursuant to the EBA guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, applicable from 1 January 2021, a cure may be approved in exceptional circumstances diverging from the above standard conditions.

Measurement parameters

The HYPO NOE Group distinguishes between four key customer groups: sovereigns, retail customers, corporates, and financial institutions. Each group has its own PD curve and its own LGD for uncollateralised loan portions.

Probability of default (PD)

The internal rating for all products is generally applied when estimating the probability of default. This forms the basis for calculating the rate of change of the PD in the quantitative staging process for the expected credit loss (ECL) and lifetime ECL.

The treatment of transactions involving income-producing real estate or project finance ratings uses a slotting approach, in accordance with Article 158(6) CRR. In order to permit a stage transfer on this basis, the various slots must be reconciled with one of the rating grades on the Group’s master scale. The PD curve is drawn up on the basis of this “slot-implied” rating, which permits a staging comparison based on the long-term PD, as well as an ECL computation.

The lifetime PD curves are derived from a breakdown of the entire portfolio by credit risk factors. The Group distinguishes between the following key customer groups: sovereigns, retail customers, corporates, and financial institutions. The first step involves generating a multi-year (lifetime) PD curve that reflects a through-the-cycle (TTC) methodology. Owing to the Bank’s size and risk-averse business model, sufficient empirical default and migration data from which to derive an empirical lifetime PD curve are only available for the retail business. Empirical default data for up to five years can be used to determine the one-year PDs on the master scale, and also serve as the basis for plotting the TTC lifetime PD curve. External data in the public domain are also used to generate the TTC PD curves for other customer groups.

TTC PD curves

The HYPO NOE Group has adopted the following approach to the derivation of multi-year probabilities of default in line with the TTC approach.

An average one-year migration matrix and an average, cumulative multi-year PD curve for a period of up to five years are generated for the retail customer group, based on one, two, three, four and five-year cohorts compiled using historic, Bank-specific rating migration data and the cohort method. An intensity matrix generated on the basis of the above one-year migration matrix (time-homogeneous generator matrix) is used, leading as a next step to calibrating the time-inhomogeneous curve (seasoning effect), applying the above cumulative multi-year PD curve and an appropriate transformation approach.

In order to generate multi-year PD curves for the corporates, sovereigns and financial institutions customer groups, the Bank makes use of external data in the public domain as it does not have sufficient internal data. Sovereign default is extremely rare, and time series of empirical default rates are not available. By design, migration matrixes are based on all changes in the ratings of the customers under observation, and not purely on default data. In other words, all available empirical migration data are used for the estimate. With regard to sovereigns, the Bank draws on external, publicly available one-year migration matrixes for sovereigns, and obtains cumulative 50-year PD curves by means of exponentiation (time-discrete, autonomous Markov chain process). Regardless of whether they are generated using external or internal data, migration matrixes often need to be smoothed in order to assure the economic plausibility of the data and a monotonic curve. Smoothing is also required for the sovereign PD curves generated using the migration model. Likewise, due to the lack of internal default data, external migration data in the public domain are relied on for the corporates and financial institutions customer groups. In contrast to sovereigns, sufficient data on one-year default rates are available for these groups. In order to incorporate these data into the estimate as efficiently as possible, a fitting approach was adopted to generate the multi-year PD curves, as this employs empirical default data. Based on the empirical cumulative default rate data, fitting is carried out for corporates and financial institutions by means of adjusted Weibull distributions.

Point in time (PiT) PD curves

PiT adjustment enables current and expected macroeconomic developments to be taken into account when calculating PD. To this end an empirical model was used to analyse the relationships between changes in macroeconomic indicators and the PD. The Group has identified such a correlation in the retail and corporates customer groups. Defaults are rare in the other groups, so a connection between PD and macroeconomic developments cannot be demonstrated. The model focuses on identifying the business cycle relevant to defaults and the current position in the cycle. This is represented by a standardised aggregate indicator and is subsequently used to adjust the TTC PDs (PiT adjustment).

The basis for the simulation is a multivariate linear regression model based on the ordinary least squares (OLS) model. To begin with, the macroeconomic indicators relevant to the Bank's empirical default data are identified. The model is then calibrated for the composition and type of the selected macroeconomic indicators until an economically meaningful and statistically significant relationship between empirical defaults and the explanatory indicators with an appropriate level of explanatory power can be derived. Calibration is by means of the step-by-step selection of indicators, whereby the first indicators that feed into the model are those that make the greatest contribution to explaining the course of PD. In addition, indicators are assessed to find out whether they have become superfluous due to their correlation with the other indicators and can be removed from the model.

In both of the customer groups concerned, the fully calibrated model permits the application of the following macroeconomic indicators, which explain the connection between macroeconomic trends and the probability of default in a statistically significant and economically meaningful manner:

- GDP growth (%)
- Export growth (%)
- Growth in private consumption (%)

Historical data for these economic indicators is taken from data published by Eurostat, the EU's statistical office. A weighted average of forecasts from up to three different sources is used for the macroeconomic forecasts incorporated into the model. The forecast horizon is three years. Published data from the following institutions are used as sources for the forecast: the OeNB, the Austrian Institute of Economic Research (WIFO), Fitch Solutions (Fitch), the Institute for Advanced Studies (IHS) and the Organisation for Economic Cooperation and Development (OECD). The final selection of forecast sources is made according to the criteria of currentness, granularity and forecasting horizon, and the selection is limited to a maximum of three different sources. The following forecasts from December 2022 fed into the model for PiT adjustment as at 31 December 2022, with the following weightings: OeNB: 50%, Fitch: 50%. This is because these were the only two sources to include a three-year forecast horizon as at the reporting date.

In addition to the baseline scenario, an optimistic and a pessimistic alternative scenario were incorporated into the estimate for the final PiT PDs as at 31 December 2022. To determine the alternative scenarios, the 10% quantile of a stochastic distribution of PD scenarios resulting from a large number of possible trajectories of the macroeconomic variables was selected for the optimistic scenario, and the 90% quantile for the pessimistic scenario.

The three PD scenarios are weighted to produce the overall PiT PD curves for the retail and corporates customer groups. The weighted PiT PD curves provide the basis for evaluation of the quantitative stage transfer. In principle, both the optimistic and the pessimistic scenario are given a 10% weighting, in accordance with the selected quantiles. However, if available information is not adequately reflected in the forecasts, the weighting is reviewed to determine whether an adjustment is necessary. As at the end of the reporting period, the forecasts were subject to a high degree of uncertainty due to various negative factors. These include the continuing risks associated with future energy supplies, which would have a significant impact on the Austrian economy, as well as high inflation, rising prices and interest rates, and the risk of a wage-price spiral. In order to take this information into consideration appropriately, the HYPO NOE Group adapted the weighting of the three PD scenarios as at 31 December 2022 as follows: baseline scenario 30%; optimistic scenario 10%; pessimistic scenario 60%.

With effect from 31 December 2022, the Group ceased to use the approach last employed in the 2022 semi-annual financial statements in order to take into consideration the Covid-19-related time lag between movements in macroeconomic indicators and the expected time of default resulting from debt moratoriums and state support measures. As generally envisaged, the selected forecasts for the coming three years were incorporated in the model for determining

PiT PD curves without assuming a time lag. This completed the return to the pre-pandemic approach for estimating PiT PD (used most recently in the 2019 annual financial statements).

The tables below provide a comparison of the macroeconomic indicators published by the selected sources and those applied in generating the HYPO NOE Group's forecasts as at 31 December 2022 and 31 December 2021.

31 Dec. 2022	Forecasts		
	Years	OeNB	Fitch
GDP	2023	0.6	0.2
	2024	1.7	1.4
	2025	1.6	2.0
Private consumption	2023	0.1	-0.2
	2024	2.1	1.4
	2025	1.4	2.0
Exports	2023	1.7	1.4
	2024	3.3	2.5
	2025	3.7	2.0

31 Dec. 2022	HYPO NOE inputs		
	Years	OeNB	Fitch
GDP	2023	0.6	0.2
	2024	1.7	1.4
	2025	1.6	2.0
Private consumption	2023	0.1	-0.2
	2024	2.1	1.4
	2025	1.4	2.0
Exports	2023	1.7	1.4
	2024	3.3	2.5
	2025	3.7	2.0

31 Dec. 2021	Forecasts			
	Years	OeNB	WIFO	Fitch
GDP	2021	4.9	4.1	4.1
	2022	4.3	5.2	4.3
	2023	2.6	2.5	2.4
	2024	1.8	n/a	1.8
Private consumption	2021	1.8	3.4	3.0
	2022	5.7	6.3	4.0
	2023	3.4	2.9	2.0
	2024	2.4	n/a	1.8
Exports	2021	10.5	10.2	10.3
	2022	3.2	8.5	8.0
	2023	4.8	4.2	3.0
	2024	2.5	n/a	2.5

31 Dec. 2021	HYPO NOE inputs			
	Years	OeNB	WIFO	Fitch
GDP	2022	-2.2	-2.9	-2.9
	2023	2.0	2.2	1.3
	2024	2.6	2.5	2.4
Private consumption	2022	-6.8	-5.4	-7.1
	2023	-1.4	0.6	-3.4
	2024	1.9	2.9	-1.4
Exports	2022	-2.2	-1.7	-1.2
	2023	0.9	6.7	6.7
	2024	4.8	4.2	3.0

The table below shows the one-year default probabilities generated by the PiT PD model, and a comparison with the one-year probability of default according to the long-term average PD based on the HYPO master scale, broken down by rating grades. The comparison between the master scale and the PIT-adjusted PDs reveals a significant increase in expectations of default in both PD segments as compared with the long-term average.

Rating	1Y PD – master scale	1Y PiT PD – corporate	1Y PiT PD – retail
1A	0.01%	0.02%	The assessment of retail customers' creditworthiness begins at a rating of 2C, meaning that these categories do not apply
1B	0.02%	0.03%	
1C	0.03%	0.03%	
1D	0.04%	0.04%	
1E	0.05%	0.05%	
2A	0.07%	0.06%	
2B	0.11%	0.09%	
2C	0.16%	0.14%	0.18%
2D	0.24%	0.21%	0.26%
2E	0.35%	0.34%	0.40%
3A	0.53%	0.57%	0.60%
3B	0.80%	0.96%	0.91%
3C	1.20%	1.47%	1.34%
3D	1.79%	2.22%	2.00%
3E	2.69%	3.38%	2.98%
4A	4.04%	5.15%	4.42%
4B	6.05%	8.17%	6.59%
4C	9.08%	12.97%	9.81%
4D	13.62%	20.55%	14.59%
4E	20.44%	32.47%	21.68%

LGD for uncollateralised loan portions

LGDs for uncollateralised loan portions are applied to each key customer group specifically. The LGDs for the retail customer group are derived from internal empirical default data. The estimates of LGD for uncollateralised loan portions were updated and refined for the purpose of preparing the 2022 financial statements. The resulting effect on the estimate for risk provisions was EUR 150thsd. In the low-default-risk portfolio (i.e. sovereigns, covered bonds and financial institutions) the Group currently uses estimates of LGD based on global default data from the rating agency Moody's. The same applies to corporates, as there is too little reliable internal default data to permit a valid internal estimate of LGD. In the case of specialised lending exposures, LGD for uncollateralised loan portions is derived from slot 5 in Table 2 in Article 158(6) CRR. This is used to generate "slot-implied" ratings.

Owing to the application of a liquidation period, the HYPO NOE Group directly includes haircuts in the LGD estimate. This results in material reductions in retail and corporate LGD. The liquidation period is derived from internal empirical default data. The haircut feeds into the estimate of LGD by discounting the expected recovery over the realisation period and by including the average rate of interest on the portfolio. Internal analysis does not give rise to a material liquidation period for the LGDs of the other customer groups. This is mainly due to short-term restructuring measures, required by statutory frameworks, that enable sovereigns and financial institutions to ensure that systemically important operations continue to run smoothly in advanced societies. For this reason, a separate resolution procedure has been established for financial institutions. This is designed to restore a bank's viability and ability to restructure in a short space of time, by converting bail-in debt capital into equity.

LGD for collateralised loan portions

EAD is divided into a collateralised and an uncollateralised portion for each individual transaction. The value of collaterals to be recognised (i.e. the mortgaging values) is compared with the EAD, and offset up to the maximum EAD. The LGD for the collateralised portion of a loan is then assigned to the collateral in question. In the HYPO NOE Group, guarantees concluded close to the beginning of the guaranteed financial transaction are viewed as integral parts of the contract for financial assets.

The collaterals used by the Bank are largely guarantees and mortgages. The LGD on guarantees is determined by means of a mathematical model, applying the joint default approach. In the case of mortgages, a potential sales writedown is already included in the mortgaging value of the collateral. Real estate furnished as collateral can have a very wide range of mortgaging values, and these are set out in the lending rate table in the Group’s collateral list. The mortgaging rates for real estate used as collateral are determined in accordance with the regulatory requirements, taking into account the various options for providing collateral (e.g. a maximum-amount mortgage or a fixed-amount mortgage on a property or a building on third-party land) and distinguishing between the various types of property in Austria and Germany, as well as other countries. In the case of properties valued using an automated process, the resulting market price forms the basis of the Bank’s internal mortgaging value. With properties for which an automated valuation procedure is not applied, if finance is provided to buy the property the internal mortgaging value is normally capped at the purchase price.

The realisation period for collaterals is taken into account in the calculation of LGD. A discount rate is calculated and applied on the basis of the realisation period and the average interest on the corresponding portfolio. This is particularly relevant to mortgages. The realisation period is calculated using internal empirical default data.

An additional sensitivity analysis to identify the effects of potential decreases in the value of real estate collaterals is presented in the “Scenarios and sensitivities” section below.

Credit conversion factor (CCF)

The credit equivalent of off-balance-sheet items (such as contingent liabilities and irrevocable commitments) is calculated by multiplying the value of an individual transaction by a credit conversion factor. The CCF is arrived at by means of an internal empirical analysis, focusing on the pattern of use of overdraft facilities in the 12 months prior to default.

Early repayments

The impact of early repayments on Stage 1 is insignificant because of the one-year observation period. Transfer from Stage 1 to Stage 2 results from a significant increase in credit risk, and the related deterioration in the borrower’s solvency makes early repayment unlikely. Indeed, in such cases it can be assumed that the borrower is unable to make early repayment, and because of this the Group does not consider prepayment profiles in Stages 1 and 2.

Instruments with no fixed maturity date

The maturity of perpetual instruments is calculated for financial institutions on a case-by-case basis, in accordance with paragraph 5.5.20 in conjunction with B5.5.40 IFRS 9. The purchase date is assumed to be the opening date, and the initial rating is therefore recorded at the purchase date. An empirical analysis of historic repayment behaviour on the part of these accounts is used to determine the maturity. The estimates of maturity were updated and refined for the 2022 financial statements. The resulting effect on the estimate for risk provisions was EUR 700thsd.

Climate risk

The previous method for evaluating exposures to particularly carbon-intensive industries in the Group’s lending portfolio, based on estimates of CO_2 emissions broken down by NACE industries, was revised and refined in the course of implementing an internal industry benchmarking model designed to assess industries’ current situation and future prospects. The model comprises an industry-specific and ESG-specific section, both of which are further broken down into empirical/statistical and expert-opinion components. The industries’ greenhouse gas intensity is evaluated in the empirical/statistical component. The Eurostat statistics for CO_2 emissions by NACE industries that were previously applied also underlie the new model, but these figures are subsequently correlated with the net non-current assets of the industry in question. As a result, the greenhouse gas intensity attributed to older assets is higher than that for newer, more modern assets. Using expert opinions collected by means of a survey, the industries are also assessed in terms of climate protection/adaptation to climate change, sustainable use/protection of water and marine resources, the transition to a circular economy, avoiding/reducing pollution, and protecting/restoring ecosystem biodiversity. By applying a benchmarking function and defined weightings, the results of the empirical/statistical and expert-opinion components give rise to an overall ESG assessment.

The industry breakdown tailored to lending operations provides a more detailed analysis of the credit portfolio, and particularly of lending to the real estate and public sectors. Many of the borrowers concerned have high environmental and social standards, and these sectors make up a significant proportion of the Group’s overall credit portfolio. The evaluations showed that currently less than 1% of the HYPO NOE Group’s credit portfolio contains sectors with a below-average ESG rating. An analysis of the transactions concerned did not identify any potential high-risk customers exposed to material ESG risks that were not already allocated to Stage 2.

Another significant risk in the medium-to-long term is the physical risk of rising sea levels. The HYPO NOE Group has specifically evaluated lending in the Netherlands, which makes up about 2% of the entire credit portfolio, from this perspective. The Netherlands expects sea levels to rise by 0.5m by 2050. Taking this forecast into consideration, and on account of the average remaining terms of approximately five years, as well as the country's long-standing, highly successful implementation of preventive measures, the Group concluded that there is no acute risk in this regard and therefore no basis for the recognition of additional risk provisions.

Due to the Group's comprehensive ethics guidelines and business principles, and the business model's focus on finance for the public sector and housing construction in the core markets of Austria and Germany as well as selected EU markets, at present it is assumed that there are no material transition or physical sustainability risks.

Scenarios and sensitivities

The HYPO NOE Group analyses a range of scenarios in order to reduce uncertainty arising from the use of forecasts and statistical models when estimating PD, and to provide a clear view of such uncertainty. The results yielded by the various scenarios as at 31 December 2022 and 31 December 2021 are shown below. A reconciliation of risk provisions in the individual scenarios with the weighted overall scenario is not possible, as the differing PDs in the scenarios result in different quantitative stage transfers.

31 Dec. 2022, EUR '000	Optimistic	Baseline	Pessimistic
Risk provisions generated by the fully automated process (Stage 1 and Stage 2)	38,356	42,334	46,519

31 Dec. 2021, EUR '000	Optimistic	Baseline	Pessimistic
Risk provisions generated by the fully automated process (Stage 1 and Stage 2)	47,610	51,110	54,748

The current crises have increased the level of uncertainty associated with forecasting expected credit losses. In order to counter this, the HYPO NOE Group has carried out additional sensitivity analyses. These show the effects and sensitivities of qualitative staging for industries, customer groups and customers significantly affected by current negative economic developments. Sensitivity 5 summarises the effects of qualitative staging on risk provisions in Stages 1 and 2 with regard to increased construction costs affecting private residential construction loans, retail customer loans denominated in Swiss francs and those with repayment vehicles, and lending to industries with poor overall ESG ratings. Finally, one scenario is presented that depicts the effects of an increase of 25% in all unsecured losses, coupled with a 15% fall in the value of real estate collaterals.

EUR '000	Risk provisions – Stage 1 and 2	Sensitivity	Description of change in parameters
Sensitivity 1	41,558	-2,838	No qualitative staging of variable-interest loans to corporates
Sensitivity 2	41,214	-3,182	No qualitative staging of variable-interest loans for property developments
Sensitivity 3	43,243	-1,153	No qualitative staging of variable-interest loans to retail customers
Sensitivity 4	42,568	-1,828	No other qualitative staging of loans for real estate developments
Sensitivity 5	44,220	-176	No qualitative staging due to other increased credit risks
Sensitivity 6	63,308	18,912	Increase of 25% in the unsecured LGD and reduction of 15% in the value of real estate collaterals

4.5.3 Detailed information on risk provisions

Gross carrying amount/nominal amount by rating class

	31 Dec. 2022					31 Dec. 2021				
EUR '000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Cash and balances at central banks	**184,902**	**19**	**-**	**-**	**184,921**	**1,409,007**	**264**	**-**	**-**	**1,409,271**
Financial assets – AC	**11,655,178**	**2,199,623**	**128,862**	**3,564**	**13,987,228**	**10,715,770**	**3,313,966**	**111,883**	**-**	**14,141,619**
Loans	10,315,055	2,156,743	128,862	3,564	12,604,224	9,520,891	3,192,377	111,883	-	12,825,151
Rating class 1	4,905,442	19,385	-	-	4,924,827	3,816,296	916,762	-	-	4,733,058
Rating class 2	4,045,225	810,807	-	-	4,856,032	4,378,457	1,017,716	-	-	5,396,173
Rating class 3	1,349,348	1,138,697	-	-	2,488,045	1,297,323	1,052,471	-	-	2,349,794
Rating class 4	15,040	187,853	-	-	202,893	28,816	205,428	-	-	234,244
Rating class 5	-	-	128,862	3,564	132,426	-	-	111,883	-	111,883
Bonds	1,340,124	42,881	-	-	1,383,004	1,194,879	121,589	-	-	1,316,468
Rating class 1	832,871	-	-	-	832,871	763,146	43,624	-	-	806,771
Rating class 2	489,664	3,973	-	-	493,637	424,419	24,901	-	-	449,320
Rating class 3	17,589	2,314	-	-	19,902	7,314	53,063	-	-	60,377
Rating class 4	-	36,594	-	-	36,594	-	-	-	-	-
Financial assets – FVOCI	**229,483**	**-**	**-**	**-**	**229,483**	**357,958**	**-**	**-**	**-**	**357,958**
Bonds	229,483	-	-	-	229,483	357,958	-	-	-	357,958
Rating class 1	190,240	-	-	-	190,240	297,151	-	-	-	297,151
Rating class 2	39,243	-	-	-	39,243	60,807	-	-	-	60,807
Provisions for off-balance-sheet risks	**1,278,250**	**182,134**	**2,419**	**-**	**1,462,803**	**1,484,630**	**236,851**	**1,267**	**-**	**1,722,748**
Rating class 1	946,430	300	-	-	946,730	469,869	78,467	-	-	548,336
Rating class 2	174,507	46,799	-	-	221,306	229,491	50,822	-	-	280,313
Rating class 3	149,701	124,983	-	-	274,684	779,757	92,132	-	-	871,890
Rating class 4	7,612	10,052	-	-	17,664	5,513	15,429	-	-	20,941
Rating class 5	-	-	2,419	-	2,419	-	-	1,267	-	1,267
Trade receivables	**-**	**2,771**	**-**	**-**	**2,771**	**-**	**4,196**	**-**	**-**	**4,196**
Total	**13,347,813**	**2,384,548**	**131,281**	**3,564**	**15,867,206**	**13,967,365**	**3,555,276**	**113,150**	**-**	**17,635,791**

Risk provisions by rating class

EUR '000	31 Dec. 2022					31 Dec. 2021				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and balances at central banks	**-4**	**-1**	**-**	**-**	**-6**	**-7**	**-16**	**-**	**-**	**-23**
Financial assets – AC	**-6,946**	**-35,966**	**-44,724**	**-**	**-87,637**	**-9,639**	**-39,627**	**-38,868**	**-**	**-88,135**
Loans	-6,683	-28,407	-44,724	-	-79,814	-9,473	-30,138	-38,868	-	-78,478
Rating class 1	-66	-3	-	-	-68	-62	-236	-	-	-298
Rating class 2	-2,121	-6,070	-	-	-8,192	-3,621	-5,210	-	-	-8,831
Rating class 3	-4,396	-10,979	-	-	-15,375	-5,499	-14,763	-	-	-20,262
Rating class 4	-100	-11,354	-	-	-11,454	-291	-9,928	-	-	-10,219
Rating class 5	-	-	-44,724	-	-44,724	-	-	-38,868	-	-38,868
Bonds	-263	-7,559	-	-	-7,822	-167	-9,489	-	-	-9,656
Rating class 1	-52	-	-	-	-52	-46	-43	-	-	-89
Rating class 2	-151	-37	-	-	-188	-116	-52	-	-	-168
Rating class 3	-60	-50	-	-	-110	-5	-9,394	-	-	-9,399
Rating class 4	-	-7,472	-	-	-7,472	-	-	-	-	-
Financial assets – FVOCI	**-11**	**-**	**-**	**-**	**-11**	**-12**	**-**	**-**	**-**	**-12**
Bonds	-11	-	-	-	-11	-12	-	-	-	-12
Rating class 1	-7	-	-	-	-7	-6	-	-	-	-6
Rating class 2	-3	-	-	-	-3	-5	-	-	-	-5
Provisions for off-balance-sheet risks	**-358**	**-1,096**	**-1,782**	**-**	**-3,236**	**-924**	**-1,523**	**-894**	**-**	**-3,342**
Rating class 1	-1	-	-	-	-1	-	-29	-	-	-29
Rating class 2	-61	-131	-	-	-192	-112	-108	-	-	-221
Rating class 3	-236	-658	-	-	-893	-773	-600	-	-	-1,373
Rating class 4	-61	-307	-	-	-368	-39	-787	-	-	-826
Rating class 5	-	-	-1,782	-	-1,782	-	-	-894	-	-894
Trade receivables	**-**	**-14**	**-**	**-**	**-14**	**-**	**-49**	**-**	**-**	**-49**
Total	**-7,319**	**-37,077**	**-46,506**	**-**	**-90,903**	**-10,582**	**-41,215**	**-39,762**	**-**	**-91,560**

In 2022, the financing for an international infrastructure project was restructured, resulting in a significant modification of the non-performing contract. Due to the restructuring, the original financial instrument was derecognised and a new financial instrument was recognised as originated credit-impaired (POCI).

4.5.4 Detailed information on impairment losses/gains – IFRS 9, ECL

The following table shows the changes in risk provisions in 2022 and the breakdown of the changes by statement of profit or loss items.

EUR '000	Changes in risk provisions, 2022	Impairment losses/gains on financial assets – IFRS 9 ECL	Interest expense	Not recognised through profit or loss	Changes in risk provisions, 2021
Risk provisions at start of reporting period	**-91,560**				**-81,947**
Increase due to origination and purchase	-4,783	-4,783	-	-	-6,037
Reduction due to derecognition and substantial modification	3,919	3,919	-	-	3,279
Utilisation of risk provisions	5,263	-	-	5,263	1,722
Allocations and reversals due to changes in credit risk	-3,799	-2,927	-873	-	-8,566
Other adjustments (incl. exchange differences)	6	6	-	-	-
Cash and balances at central banks, and trade receivables	52	52	-	-	-12
Risk provisions at end of reporting period	**-90,903**	**-3,733**	**-873**	**5,263**	**-91,560**

Stage 1 impairment losses/gains

The following table shows the evolution of the loss allowances for expected losses on financial assets without a significant increase in credit risk. These loss allowances are measured at amounts equal to the 12-month expected credit losses.

31 Dec. 2022 EUR '000	1 Jan. 2022	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2022
Cash and balances at central banks	**-7**	**-**	**4**	**-2**	**-**	**-4**
Financial assets – AC	**-9,640**	**-2,871**	**1,289**	**4,276**	**-**	**-6,946**
Loans	-9,473	-2,806	1,286	4,310	-	-6,683
Banks	-6	-	6	-	-	-
General governments	-8	-7	6	-1	-	-10
Other financial corporations	-869	-55	18	445	-	-461
Non-financial corporations	-7,719	-2,544	1,195	3,275	-	-5,794
Households	-870	-200	61	591	-	-418
Bonds	-167	-65	3	-34	-	-263
Banks	-123	-56	3	20	-	-156
General governments	-7	-1	-	2	2	-5
Other financial corporations	-30	-8	-	8	-1	-32
Non-financial corporations	-7	-	-	-63	-	-70
Financial assets – FVOCI	**-12**	**-1**	**-**	**2**	**-**	**-11**
Bonds	-12	-1	-	2	-	-11
Banks	-9	-1	-	1	-	-9
General governments	-2	-	-	1	-	-1
Other financial corporations	-1	-	-	-	-	-1
Non-financial corporations	-	-	-	-	-	-
Provisions for off-balance-sheet risks	**-924**	**-671**	**150**	**1,087**	**-**	**-358**
Loan commitments and financial guarantee contracts	-924	-671	150	1,087	-	-358
Total	**-10,583**	**-3,543**	**1,444**	**5,363**	**-**	**-7,319**

31 Dec. 2021 EUR '000	1 Jan. 2021	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2021
Cash and balances at central banks	**-4**	**-**	**3**	**-5**	**-**	**-7**
Financial assets – AC	**-10,889**	**-3,784**	**829**	**4,205**	**-**	**-9,640**
Loans	-10,765	-3,724	816	4,200	-	-9,473
Banks	-	-6	-	-	-	-6
General governments	-11	-29	9	23	-	-8
Other financial corporations	-940	-240	199	112	-	-869
Non-financial corporations	-8,580	-2,793	550	3,104	-	-7,719
Households	-1,235	-655	58	962	-	-870
Bonds	-124	-61	13	5	-	-167
Banks	-91	-48	12	7	-2	-123
General governments	-6	-1	1	-1	-	-7
Other financial corporations	-25	-9	-	2	2	-30
Non-financial corporations	-2	-3	-	-3	1	-7
Financial assets – FVOCI	**-18**	**-2**	**2**	**5**	**-**	**-12**
Bonds	-18	-2	2	5	-	-12
Banks	-13	-	1	3	-	-9
General governments	-4	-	1	1	-	-2
Other financial corporations	-1	-	-	2	-1	-1
Non-financial corporations	-	-2	-	-	1	-
Provisions for off-balance-sheet risks	**-885**	**-1,242**	**283**	**921**	**-**	**-924**
Loan commitments and financial guarantee contracts	-885	-1,242	283	921	-	-924
Total	**-11,797**	**-5,028**	**1,117**	**5,126**	**-**	**-10,583**

Stage 2 impairment losses/gains

The following table shows the evolution of the loss allowances for expected losses on financial assets with a significant increase in credit risk. The loss allowances are measured at amounts equal to the lifetime expected credit losses.

31 Dec. 2022 EUR '000	1 Jan. 2022	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2022
Cash and balances at central banks	**-16**	**-**	**1**	**14**	**-**	**-1**
Financial assets – AC	**-39,627**	**-363**	**1,979**	**2,039**	**6**	**-35,966**
Loans	-30,138	-104	1,979	-150	6	-28,407
General governments	-764	-3	64	438	-	-266
Other financial corporations	-302	-	-	-3,129	-	-3,431
Non-financial corporations	-23,078	-38	1,487	3,303	3	-18,323
Households	-5,994	-63	428	-762	3	-6,387
Bonds	-9,489	-259	-	2,189	-	-7,559
General governments	-2	-	-	2	-	-
Other financial corporations	-9,000	-259	-	1,853	-66	-7,472
Non-financial corporations	-488	-	-	334	66	-87
Trade receivables	**-49**	**-14**	**48**	**-**	**-**	**-14**
Provisions for off-balance-sheet risks	**-1,523**	**-79**	**72**	**434**	**-**	**-1,096**
Loan commitments and financial guarantee contracts	-1,523	-79	72	434	-	-1,096
Total	**-41,215**	**-456**	**2,101**	**2,487**	**6**	**-37,077**

31 Dec. 2021 EUR '000	1 Jan. 2021	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2021
Cash and balances at central banks	**-9**	**-**	**-**	**-8**	**-**	**-16**
Financial assets – AC	**-39,077**	**-86**	**1,151**	**-1,615**	**-**	**-39,627**
Loans	-28,874	-86	1,146	-2,324	-	-30,138
General governments	-938	-	63	111	-	-764
Other financial corporations	-182	-	1	-120	-	-302
Non-financial corporations	-17,989	-70	671	-5,691	-	-23,078
Households	-9,764	-16	411	3,376	-	-5,994
Bonds	-10,203	-	5	709	-	-9,489
General governments	-3	-	-	1	-	-2
Other financial corporations	-9,554	-	-	528	26	-9,000
Non-financial corporations	-647	-	5	180	-26	-488
Trade receivables	**-17**	**-32**	**-**	**-**	**-**	**-49**
Provisions for off-balance-sheet risks	**-1,873**	**-22**	**668**	**-296**	**-**	**-1,523**
Loan commitments and financial guarantee contracts	-1,873	-22	668	-296	-	-1,523
Total	**-40,982**	**-140**	**1,820**	**-1,913**	**-**	**-41,215**

Stage 3 impairment losses/gains

The following table shows the evolution of the loss allowances for expected losses on financial assets. The loss allowances are measured at amounts equal to the lifetime expected credit losses.

31 Dec. 2022 EUR '000	1 Jan. 2022	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2022
Financial assets – AC	**-38,868**	**-**	**5,687**	**-11,544**	**-**	**-44,724**
Loans	-38,868	-	5,687	-11,544	-	-44,724
General governments	-3,541	-	-	529	-	-3,012
Other financial corporations	-7,569	-	-	-223	-	-7,791
Non-financial corporations	-20,251	-	4,752	-9,768	-1,714	-26,981
Households	-7,508	-	936	-2,083	1,714	-6,941
Provisions for off-balance-sheet risks	**-894**	**-798**	**4**	**-94**	**-**	**-1,782**
Loan commitments and financial guarantee contracts	-894	-798	4	-94	-	-1,782
Total	**-39,762**	**-798**	**5,691**	**-11,637**	**-**	**-46,506**

31 Dec. 2021 EUR '000	1 Jan. 2021	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2021
Financial assets – AC	**-29,102**	**-900**	**2,057**	**-10,924**	**-**	**-38,868**
Loans	-29,102	-900	2,057	-10,924	-	-38,868
General governments	-3,945	-	-	404	-	-3,541
Other financial corporations	-2,995	-	-	-4,574	-	-7,569
Non-financial corporations	-13,980	-673	1,071	-6,669	-	-20,251
Households	-8,183	-226	986	-85	-	-7,508
Trade receivables	**-30**	**-**	**15**	**15**	**-**	**-**
Provisions for off-balance-sheet risks	**-36**	**-**	**9**	**-867**	**-**	**-894**
Loan commitments and financial guarantee contracts	-36	-	9	-867	-	-894
Total	**-29,168**	**-900**	**2,081**	**-11,776**	**-**	**-39,762**

4.5.5 Collateral and loan-to-value ratio

The main forms of collateral received are guarantees for loans and advances to customers, securities and derivatives; guarantees are provided almost exclusively by the public sector (sovereigns, state governments and local authorities). Financial collateral mainly includes pledged securities, margins received and deposits received from banks.

Collateral received, which was in use as at 31 December 2022 in accordance with the requirements for credit risk mitigation in Title I, Chapter 4 of Part Three of the CRR, is broken down as follows:

Types of collateral

EUR '000	31 Dec. 2022	31 Dec. 2021
Guarantees	3,580,482	4,163,770
Residential properties	2,500,467	2,269,441
Commercial properties	701,356	619,408
Financial collateral	456,849	463,188
Life insurance policies	10,624	12,149

The following table shows the loans assigned to Stage 3 with a loan-to-value (LTV) ratio of over 60% as recommended by the European Systemic Risk Board (ESRB). The LTV ratio is the ratio of the loan extended to the related real estate collaterals.

Loans – Stage 3

EUR '000	31 Dec. 2022	31 Dec. 2021
Households	**8,089**	**9,103**
LTV ratio 61-80%	4,173	4,217
LTV ratio 81-100%	2,374	2,158
LTV ratio >100%	1,542	2,728
Non-financial corporations	**4,061**	**11,751**
LTV ratio 61-80%	990	722
LTV ratio 81-100%	647	2,799
LTV ratio >100%	2,424	8,231
Total	**12,151**	**20,854**

4.6 Derivatives and hedge accounting

Significant accounting policies

Derivative financial instruments are always carried at “dirty” fair value (i.e. “clean” fair value plus any accrued interest), which is calculated on the basis of the fair value hierarchy.

In accordance with IFRS 9 and with the Bank’s risk management strategy, derivative financial instruments are designated for hedge accounting treatment, and the Group guidelines require them to be carried under the “Positive fair value of hedges (hedge accounting)” and “Negative fair value of hedges (hedge accounting)” items. All other derivative transactions are measured at fair value and reported under the “Financial assets – HFT” and “Financial liabilities – HFT” items.

Changes in the reference rate curve (primarily the Euribor) are one of the main drivers of fluctuations in the fair value of fixed-rate financial instruments. In line with its risk management strategy, the Group ensures that interest rate risk remains within specified limits (see Note 8 RISK MANAGEMENT) by means of hedging. Hedging instruments convert the fixed interest rate on the underlying into a floating rate pegged to the reference rate, which in turn mitigates the market risk induced by changes in interest rates. The HYPO NOE Group generally uses interest rate swaps to hedge against interest rate risk arising from fixed-rate financial instruments reported under “Financial assets – AC”, “Financial assets – FVOCI” and “Financial liabilities – AC”. Interest rate and foreign exchange risk on bond issues denominated in foreign currencies (“Financial liabilities – AC” item) are hedged by cross-currency interest rate swaps. The fixed leg of the swap represents the hedged risk component of the underlying. Assets are therefore hedged by trading swaps with a fixed-rate payer side and a floating-rate receiver side, while liabilities are hedged by means of swaps with a fixed-rate receiver side and a floating-rate payer side. Interest rate options are used to hedge against interest rate risk arising from interest rate caps on variable-rate financial instruments (purchased caps for assets), and are recognised as fair value hedges provided that they qualify for hedge accounting. Any changes in contractual nominal values or call rights on the underlyings are replicated in the hedging instrument. Off-balance-sheet, firm commitments are occasionally hedged by forward starting swaps and designated as underlyings in the hedge accounting.

In the HYPO NOE Group, potential causes of hedge ineffectiveness are:

- Basis risks arising from differing discount curves
- FX basis risks
- Hedge credit risk

Basis risks arising from differing discount curves are in principle purely valuation risks that arise from current market practice with respect to valuation in hedge accounting. Cash-collateralised derivatives (e.g. collateralised by means of a credit support annex [CSA]) are discounted using the risk-free (OIS) interest curve. Collateralised underlyings are discounted using the Interbank Offered Rate (IBOR), which includes the interbank liquidity spread as well as the risk-free rate.

As a result of the EU Benchmarks Regulation, the euro overnight index average (EONIA) benchmark rate, among others, has gradually been replaced by the new euro short-term rate (€STR). The discount curves for cleared derivatives, which are traded on the Eurex Exchange and through LCH, were the first to be switched from EONIA to €STR. The resulting measurement differences were offset by means of compensation payments. This was followed by an identical, step-by-step changeover for the discount curves for derivatives with bilateral contracts and CSAs, which was completed during the year under review. Again, compensation payments were made in respect of the resulting measurement differences. The Group recognised these payments immediately in profit or loss.

Because the HYPO NOE Group exclusively uses fixed-interest underlyings in transactions designated as micro fair value hedges by IFRS 9, there was no need for recourse to the relief for hedge accounting created by the amendments to IFRS 9 and IAS 39 in connection with interest rate benchmark reform.

FX basis risks arise when the FX basis components in the hedged underlying are not recognised in the hedge accounting, although they are included in the valuation of the hedge instrument. This leads to the contradictory situation that when the FX basis risk is adequately hedged by a cross-currency swap with matching maturity, there is a risk of earnings fluctuations over the term arising from changes in the FX basis spread, due to their inclusion in the valuation of the FX derivative. In economic terms, no risk arises over the entire term of such FX hedges as the periodic effects on earnings completely cancel each other out. With regard to cross-currency swaps, IFRS 9 includes an elective right to recognise the FX basis spread in other reserves (presented in OCI), and not under “Net gains or losses on financial assets”. The Group exercises this elective right for eligible transactions, for which the FX basis spread is recognised as a cost of hedging in other reserves (hedge accounting). The ineffectiveness is reported under “Net gains or losses on financial assets” in the statement of profit or loss.

The potential for credit risk on hedges to cause ineffectiveness is largely eliminated by concluding collateral agreements (CSAs) and by using central counterparty clearing.

The documentation of hedges largely comprises the type of hedging relationship, the hedged risk, the economic relationship, the risk management objective, and the method for assessing effectiveness. Hedge effectiveness is crucial to the use of hedge accounting. In many cases, the Group demonstrates the economic relationship qualitatively, and using a forward-looking approach, by documenting the correlation between the main risk parameters for hedges and underlyings (critical terms match [CTM]) at the time of designation. If the critical terms of the hedge and those of the offsetting risk position in the underlying were not (in the case of material changes in the terms of the transaction) or ceased to be closely aligned to the extent that would usually be expected in a standard economic hedge, purely qualitative assessment would entail a high degree of uncertainty. In such cases, a final assessment based on quantitative methods is permitted. The HYPO NOE Group performs effectiveness assessment prospectively using the dollar offset method supported by linear regression analysis.

Any changes in the fair value of the hedged risk arising from the underlyings are calculated on a monthly basis, using hypothetical derivatives in which the contractual terms match the critical terms of the underlyings. With regard to fair value hedges against interest rate risk, in order to accurately measure the hedged risk, a risk component in the underlying related to the reference rate (normally the Euribor) is designated as qualifying for hedge accounting. The risk component is identified by means either of adjustment of the contractual fixed interest rate and measurement using the risk-free reference rate curve (known as the NPV margin method), or of measurement using the risk-free reference rate curve including a premium, and applying the contractual fixed interest rate (yield spread method).

Both the underlying and the hedge may nominally qualify for hedge accounting in full or in part. The hedge ratio is the ratio of the portion of the nominal value qualifying for hedge accounting to the overall nominal value of the financial instrument. IFRS 9 states that in the event of changes in risk parameters (e.g. basis risks between the underlying and the hedge), an entity may adjust the hedge ratio so as to restore effectiveness. Such “rebalancing” was not required during the reporting period.

As at 31 December 2022, only micro fair value hedges were reported on the consolidated statement of financial position. A micro-hedge arises if a hedged underlying (or group of underlyings) can be clearly assigned to one or more hedges. Bottom layer hedges are used as a special form of micro fair value hedge for a variety of fixed-interest loans. Here, a bottom layer for a group of like underlyings is designated for hedge accounting, and it is assumed that following the expected prepayments this layer will in all likelihood remain in place until the hedge transactions mature. In this case, precise allocation of the individual underlyings to the remaining bottom layer is not required.

The net measurement gains or losses on the fair value hedges form part of “Net gains or losses on financial assets and liabilities”.

Designated derivatives in hedging relationships are measured at fair value, and gains or losses on them are reported under “Net gains or losses on financial assets and liabilities”. The corresponding interest accruals are shown under “Net interest income”. For details see notes 4.2.1 Net interest income and 4.2.2 Net gains or losses on financial assets and liabilities.

The measurement of designated underlyings in hedging relationships is at amortised cost, and is reported under the “Financial assets – AC” and “Financial liabilities – AC” items, which are adjusted for the fair value measurement of the hedged risk (basis adjustment). For underlyings stated under “Financial assets – FVOCI”, the OCI reserve is adjusted and the adjustment taken to profit or loss.

When a hedge or underlying expires or is terminated or exercised prematurely, or if the hedging relationship no longer fully meets the qualification criteria for hedge accounting, the hedging relationship must be discontinued prospectively. IFRS 9 does not provide for the voluntary discontinuation of hedge accounting.

In the event of the early termination of hedging instruments in micro fair value hedges, the portion of the intrinsic value attributable to any close-out fees is immediately taken to profit or loss under “Net gains or losses on financial assets and liabilities". The same applies to the most recent applicable measurement of the risk qualifying for hedge accounting (basis adjustment) on disposal of the underlyings.

If hedge accounting is terminated although an underlying is still carried, the most recent basis adjustment for the underlyings concerned in the "Financial assets – AC" and "Financial liabilities – AC" items is amortised in "Net interest income" over the remaining maturity of the underlying. A similar approach is used for the most recent hedge accounting adjustment of the OCI reserve for underlyings under the "Financial assets – FVOCI" item. The financial statements presented in this annual report do not include any amortisation under this item.

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

4.6.1 Carrying amounts and nominal values of derivatives

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

The following table shows the nominal values and carrying amounts of derivatives recognised as at 31 December 2022.

	31 Dec. 2022			31 Dec. 2021		
	Carrying amount		Nominal value	Carrying amount		Nominal value
EUR '000	Assets	Liabilities		Assets	Liabilities	
Financial assets and liabilities – HFT	**124,809**	**103,065**	**3,603,523**	**310,574**	**289,887**	**4,024,225**
Interest rate derivatives	79,980	59,944	2,849,975	285,171	262,252	3,314,621
Foreign exchange derivatives	44,829	43,121	753,549	25,404	27,635	709,604
Positive and negative fair value of hedges (hedge accounting)	**388,385**	**683,653**	**11,303,970**	**302,262**	**615,675**	**10,453,371**
Interest rate derivatives	378,189	652,650	11,088,280	292,833	596,834	10,236,440
Foreign exchange derivatives	10,196	31,002	215,689	9,429	18,841	216,931

31 Dec. 2022	Financial assets/ liabilities (gross)	Reported amounts offset (gross) (-)	Reported financial assets (net)	Effect of master netting agreements (-)	Collateral in the form of financial instruments (-)	Net amount
				Not offset		
EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i)	(d)(ii)	(e)=(c)+(d)
Assets						
Financial assets – HFT	124,809	-	124,809	-2,054	-500	122,255
Positive fair value of hedges (hedge accounting)	388,385	-	388,385	-373,792	-7,950	6,643
Total assets	**513,194**	**-**	**513,194**	**-375,846**	**-8,450**	**128,898**
Liabilities						
Financial liabilities – HFT	103,065	-	103,065	-2,054	-86,790	14,220
Financial liabilities – FVO	5,239	-	5,239	-	-	5,239
Negative fair value of hedges (hedge accounting)	683,653	-	683,653	-373,792	-283,389	26,472
Total equity and liabilities	**791,957**	**-**	**791,957**	**-375,846**	**-370,179**	**45,932**

31 Dec. 2021	Financial assets/ liabilities (gross)	Reported amounts offset (gross) (-)	Reported financial assets (net)	Effect of master netting agreements (-) Not offset	Collateral in the form of financial instruments (-) Not offset	Net amount
EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i)	(d)(ii)	(e)=(c)+(d)
Assets						
Financial assets – HFT	310,574	-	310,574	-13,684	-10,413	286,478
Positive fair value of hedges (hedge accounting)	302,262	-	302,262	-214,937	-16,674	70,652
Total assets	**612,836**	**-**	**612,836**	**-228,620**	**-27,087**	**357,129**
Liabilities						
Financial liabilities – HFT	289,887	-	289,887	-13,684	-213,035	63,168
Financial liabilities – FVO	6,061	-	6,061	-	-	6,061
Negative fair value of hedges (hedge accounting)	615,675	-	615,675	-214,937	-354,478	46,261
Total equity and liabilities	**911,623**	**-**	**911,623**	**-228,620**	**-567,513**	**115,490**

4.6.2 Detailed information on hedge accounting

Net gains or losses on hedging relationships

The following table shows the basis adjustments to underlyings, net gains or losses on measurement of hedges, and resultant hedge ineffectiveness, itemised according to the items and the product types of the underlyings.

It should be noted that the relevant valuations of both the active underlying and hedging transactions, and the final valuations of prematurely terminated hedges are shown.

	2022			2021		
EUR '000	Net gains or losses on hedged transactions	Net gains or losses on hedges	Net gains or losses on hedging relationships	Net gains or losses on hedged transactions	Net gains or losses on hedges	Net gains or losses on hedging relationships
Assets						
Financial assets – FVOCI	**-38,330**	**38,796**	**466**	**-17,611**	**17,829**	**218**
Bonds	-38,330	38,796	466	-17,611	17,829	218
Financial assets – AC	**-759,201**	**769,514**	**10,313**	**-220,229**	**222,061**	**1,832**
Loans	-605,405	614,685	9,280	-192,071	193,173	1,102
Bonds	-153,796	154,828	1,032	-28,158	28,888	731
Investment property	**-195**	**161**	**-33**	**-182**	**183**	**1**
Liabilities						
Financial liabilities – AC	**776,324**	**-779,684**	**-3,360**	**182,129**	**-185,707**	**-3,579**
Deposits	4,048	-4,017	31	721	-941	-220
Bonds in issue	772,276	-775,667	-3,391	181,408	-184,766	-3,359
Total	**-21,401**	**28,786**	**7,385**	**-55,893**	**54,366**	**-1,527**

The change in "Net gains or losses on hedging relationships" as compared to 2021 is mainly due to the basis risks arising from differing discount curves, and to foreign exchange basis risks, where these were not taken to OCI.

Positive fair value of hedges (hedge accounting)

The table below provides an analysis of the positive fair value of hedges (hedge accounting) according to the items in the statement of financial position under which the hedged underlyings are reported.

EUR '000	31 Dec. 2022	31 Dec. 2021
Assets	**370,110**	**25,536**
Financial assets – FVOCI	3,647	34
Financial assets – AC	366,464	25,502
Liabilities	**18,274**	**276,726**
Financial liabilities – AC	18,274	276,726
Total	**388,385**	**302,262**

Negative fair value of hedges (hedge accounting)

The table below shows the negative fair value of hedges (hedge accounting) according to the items in the statement of financial position under which the hedged underlyings are reported.

EUR '000	31 Dec. 2022	31 Dec. 2021
Assets	**95,168**	**577,893**
Financial assets – FVOCI	7,402	46,667
Financial assets – AC	87,766	531,063
Other (non-financial assets)	-	163
Liabilities	**588,485**	**37,783**
Financial liabilities – AC	588,485	37,783
Total	**683,653**	**615,675**

The change in the positive and negative fair value of hedges (hedge accounting) is attributable to the fluctuations in the fair value of the underlying derivatives.

Underlying transactions in fair value hedges

The following table shows the carrying amounts and the basis adjustments they contain for underlyings included in hedge accounting as at the end of the reporting period.

The basis adjustments included in the carrying amounts of underlyings, recognised as loans under “Financial assets – AC”, also contain basis adjustments arising from firm commitments, which are described in Note 6.3 Other assets and liabilities.

	31 Dec. 2022		31 Dec. 2021	
EUR ’000	Carrying amounts of underlyings	Basis adjustments contained in the carrying amounts of underlyings	Carrying amounts of underlyings	Basis adjustments contained in the carrying amounts of underlyings
Assets				
Financial assets – AC	**3,582,543**	**-281,948**	**4,194,280**	**480,097**
Loans	2,503,318	-144,459	3,182,347	464,511
Bonds	1,079,225	-137,488	1,011,932	15,585
Investment property	**3,567**	**-**	**3,870**	**195**
Liabilities				
Financial liabilities – AC	**7,584,848**	**-605,700**	**7,634,338**	**170,618**
Deposits	44,156	-3,149	66,184	899
Bonds in issue	7,540,692	-602,551	7,568,155	169,719

	31 Dec. 2022		31 Dec. 2021	
EUR ’000	Carrying amounts of underlyings	Basis adjustments included in OCI reserve	Carrying amounts of underlyings	Basis adjustments included in OCI reserve
Assets				
Financial assets – FVOCI	**234,945**	**-642**	**368,483**	**38,615**
Bonds	234,945	-642	368,483	38,615

Maturity profile of hedges

The breakdown of the nominal values of hedges qualifying for hedge accounting by residual maturity is as follows.

Nominal value at 31 Dec. 2022 EUR '000 Assets	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets – FVOCI	**-**	**34,000**	**139,000**	**52,000**	**225,000**
Bonds	-	34,000	139,000	52,000	225,000
Financial assets – AC	**54,350**	**127,145**	**908,060**	**2,856,409**	**3,945,964**
Loans	26,850	65,431	397,095	2,265,389	2,754,765
Bonds	27,500	61,714	510,965	591,020	1,191,199
Investment property	**-**	**-**	**-**	**-**	**-**
Liabilities					
Financial liabilities – AC	**541,900**	**669,254**	**2,988,767**	**2,933,086**	**7,133,006**
Deposits	-	-	26,000	21,000	47,000
Bonds in issue	541,900	669,254	2,962,767	2,912,086	7,086,006
Total	**596,250**	**830,399**	**4,035,827**	**5,841,494**	**11,303,970**

Nominal value at 31 Dec. 2021 EUR '000 Assets	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets – FVOCI	**18,000**	**54,000**	**188,000**	**52,000**	**312,000**
Bonds	18,000	54,000	188,000	52,000	312,000
Financial assets – AC	**25,840**	**124,865**	**853,511**	**2,681,194**	**3,685,410**
Loans	13,840	98,365	397,818	2,203,950	2,713,973
Bonds	12,000	26,500	455,693	477,244	971,437
Investment property	**-**	**-**	**-**	**3,667**	**3,667**
Liabilities					
Financial liabilities – AC	**153,475**	**559,070**	**3,188,904**	**2,550,844**	**6,452,294**
Deposits	-	16,000	23,000	24,000	63,000
Bonds in issue	153,475	543,070	3,165,904	2,526,844	6,389,294
Total	**197,315**	**737,935**	**4,230,415**	**5,287,706**	**10,453,371**

4.7 Fair value disclosures

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

Significant accounting policies

Fair value is as defined by IFRS 13 and is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must be classified using a level hierarchy as follows:

Level 1

According to paragraph 76 IFRS 13, this concerns quoted prices in active markets for identical assets or liabilities, and balances at central banks.

Level 2

According to paragraph 81 IFRS 13, this concerns 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, inactive markets, similar assets or liabilities, or other observable data relevant to valuation). This chiefly applies to OTC derivatives ("Financial assets and liabilities – HFT", and "Positive and negative fair values of hedges"), as well as securities not traded on active markets. Assets carried under the "Cash and balances at central banks" item are reported in Level 2 of the hierarchy, with the exception of balances at central banks.

In the HYPO NOE Group, measurement is by means of methods based on market prices (market approach) and net present values (income approach). The former is applied to measure receivables from securities, and is largely based on market prices for the assets in question or analogously on market prices for similar assets or liabilities. The latter is applied to the measurement of receivables from securities and OTC derivatives, and is used to determine the discounted value of all future payment streams at the measurement date (present value method). The price parameters used are:

(a) The interest rate curves directly observable on the money and capital markets, and

(b) Premiums for similar assets directly observable on capital markets

Prevalent pricing models used to value options (in particular caps, floors and call rights embedded in the related hedges) include indirectly observable parameters in the form of implicit interest rate volatility figures from established market data providers, derived from prices quoted on options markets.

Level 3

According to paragraph 86 IFRS 13, Level 3 inputs are unobservable inputs for the asset or liability. In this model, measurement is based on Management's assumptions and assessments, which depend on the price transparency and complexity of the financial instrument.

The Strategic Risk Management Department defines the methods to be applied in valuation, in accordance with the relevant measurement guidelines. These guidelines, which are regularly updated, lay down the procedural and operational rules for determining fair value. The HYPO NOE Group measures the fair value of Level 3 assets and liabilities on a monthly basis. The measurement model for the HETA contingent additional purchase price is updated every quarter. The parameters applied are tested for plausibility as part of the monthly measurement process, and management receives regular reports.

Level 3 fair values occur in the following items.

Financial assets – mandatorily FVTPL and FVOCI (debt instruments), and Financial liabilities – FVO

Here, default risk, liquidity costs and the epsilon are employed as measurement parameters. Default risk is measured using the PD and LGD parameters, as well as eligible collateral. Liquidity premiums are calculated on the basis of the internal liquidity cost model. Upon conclusion of a transaction, the delta for the price is offset using epsilon calibration.

For defaulted assets, different assumptions are made for the expected cash flows from the collateralised and uncollateralised portions of the instruments with regard to their due dates. The discount factor applied takes account of the risk-free interest rate, the senior unsecured liquidity costs implied by the maturity of the individual cash flows, and a net required rate of return determined using the market interest method and based on regularly updated indicators from a sample of European banks, published on the EBA Risk Dashboard.

The HETA contingent additional purchase price (CAPP), to which all the senior and junior creditors that participated in the second Kärntner Ausgleichszahlungsfonds (KAF) Tender Offer are entitled (irrespective of whether they opted for the cash or exchange offer), is valued using an internal model. There is neither a liquid market nor are there observable market transactions for the asset. The parameters for the Level 3 model were determined using available official information on HETA and details from the Austrian Financial Market Authority (FMA), as well as a scenario analysis. This took into account all of the information and assumptions that market participants would apply in price formation. The threshold for the CAPP and the payment terms are governed by the second KAF Tender Offer.

The internal valuation model is based on the following information:

- HETA 2020 annual report and audited financial statements
- HETA 2021 annual report and audited financial statements
- HETA corporate presentation on the 2021 wind-down plan, 20 May 2021
- HETA investor information 2021 – final distribution, 28 October 2021
- HETA corporate presentation on the updated 2021 wind-down plan, 16 December 2021
- HETA corporate presentation March 2022, 24 March 2022
- FMA press release, 21 October 2021
- HETA press release, 27 October 2021
- HETA press release, 24 March 2022
- KAF press release, 2 November 2021
- KAF Tender Offer
- Third FMA notice on HETA, 26 March 2019

The HYPO NOE Group took up the swap offer in KAF’s second Tender Offer. Under the terms of the offer, the possible range for the CAPP is between 0% and 10%.

The Group did not take up KAF’s invitation of 13 May 2022 to submit an offer regarding early payment of the CAPP.

Financial assets – HFT

The “Financial assets – HFT” item contains measurements of uncollateralised customer derivatives (e.g. without the CSA annex to the ISDA Master Agreement). These are performed using an internal model based on the discounted cash flow method, taking account of the current interest rate and basis spread curves. Suitable models are used to measure embedded options. Counterparty and internal credit risk (credit value adjustment and debt value adjustment) are taken into consideration when calculating the fair value of all uncollateralised customer derivatives. However, since issuance by customers is minimal to non-existent, in the absence of quoted prices derivable from credit spreads, recourse is made to credit spreads with matching maturities, drawn from global CDS index curves in line with the internal customer ratings. A hybrid Hull-White model is used to calculate CVAs and DVAs.

Financial assets – FVOCI (equity instruments)

In consultation with other organisational units, the General Secretariat - Participations Department coordinates and implements the process for determining the fair values reported under this item. The framework is provided by the Group’s binding procedural instructions and the Group IFRS manual, both of which are regularly updated. They set out the methods, processes and legal framework for measurement, as well as laying the basis for the implementation of the internal measurement processes. They use measurement case studies to establish the key principles, objectives and parameters for business decisions.

The General Secretariat - Participations Department measures the fair value of the “Financial assets – FVOCI (equity instruments)” item on a half-yearly basis, and regularly analyses the relevant qualitative and quantitative measurement factors.

Financial assets – AC

The main measurement parameter for the bonds in the credit spread is comparable assets (peer group). For all other receivables included in this item, the same measurement parameters are applied as for “Financial assets – mandatorily FVTPL”.

4.7.1 Fair value hierarchy

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

31 Dec. 2022 EUR '000	Carrying amount	Fair value	Fair value measurement		
			Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	184,915	184,915	163,166	21,749	-
Financial assets – HFT	124,809	124,809	-	68,230	56,579
Financial assets – mandatorily FVTPL	122,172	122,172	-	43,909	78,263
Financial assets – FVOCI	236,890	236,890	234,945	-	1,945
Financial assets – AC	13,899,591	13,488,970	1,148,586	125,156	12,215,228
Positive fair value of hedges (hedge accounting)	388,385	388,385	-	388,385	-
Total assets	**14,956,762**	**14,546,140**	**1,546,697**	**647,429**	**12,352,014**
Liabilities					
Financial liabilities – HFT	103,065	103,065	-	98,802	4,262
Financial liabilities – FVO	5,239	5,239	-	-	5,239
Financial liabilities – AC	13,362,690	13,010,642	1,516,635	6,887,097	4,606,910
Negative fair value of hedges (hedge accounting)	683,653	683,653	-	683,653	-
Total equity and liabilities	**14,154,646**	**13,802,598**	**1,516,635**	**7,669,552**	**4,616,411**

31 Dec. 2021 EUR '000	Carrying amount	Fair value	Fair value measurement		
			Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	1,409,248	1,409,248	1,391,013	18,236	-
Financial assets – HFT	310,574	310,574	-	59,939	250,636
Financial assets – mandatorily FVTPL	149,504	149,504	-	45,151	104,353
Financial assets – FVOCI	370,575	370,575	368,483	-	2,092
Financial assets – AC	14,053,484	14,410,188	1,083,649	151,803	13,174,736
Positive fair value of hedges (hedge accounting)	302,262	302,262	-	302,262	-
Total assets	**16,595,647**				
Liabilities					
Financial liabilities – HFT	289,887	289,887	-	289,887	-
Financial liabilities – FVO	6,061	6,061	-	-	6,061
Financial liabilities – AC	14,920,835	14,989,463	2,147,971	7,579,077	5,262,415
Negative fair value of hedges (hedge accounting)	615,675	615,675	-	615,675	-
Total equity and liabilities	**15,832,458**				

In 2022 there were no transfers of financial instruments between the different levels of the fair value hierarchy.

4.7.2 Fair value hierarchy: Level 3 disclosures

EUR '000	1 Jan. 2022	Gains/losses: Recognised in profit or loss	Gains/losses: Not recognised in profit or loss	Purchases	Sales	Transfers to/from Level 3	31 Dec. 2022	Unrealised gains or losses recognised in profit or loss as at 31 Dec. 2022
Assets								
Financial assets – HFT	250,636	-194,057	-	-	-	-	56,579	-182,089
Financial assets – mandatorily FVTPL	104,353	-6,437	-	7,781	-27,435	-	78,263	-6,183
Financial assets – FVOCI	2,092	-	-147	-	-	-	1,945	-
Total assets	**357,080**	**-200,493**	**-147**	**7,781**	**-27,435**	**-**	**136,787**	**-188,272**
Liabilities								
Financial liabilities – HFT	-	4,262	-	-	-	-	4,262	-11,126
Financial liabilities – FVO	6,061	-	-822	-	-	-	5,239	-822
Total equity and liabilities	**6,061**	**4,262**	**-822**	**-**	**-**	**-**	**9,501**	**-11,948**

The main gains or losses on assets for which measurements are categorised within Level 3 are recognised in the statement of profit or loss under "Net gains or losses on financial assets and liabilities".

EUR '000	1 Jan. 2021	Gains/losses: Recognised in profit or loss	Gains/losses: Not recognised in profit or loss	Purchases	Sales	Transfers to/from Level 3	31 Dec. 2021	Unrealised gains or losses recognised in profit or loss as at 31 Dec. 2021
Assets								
Financial assets – HFT	341,731	-91,095	-	-	-	-	250,636	-89,925
Financial assets – mandatorily FVTPL	125,845	4,034	-	10,943	-36,469	-	104,353	4,034
Financial assets – FVOCI	2,156	-	-24	-	-49	-	2,092	-
Total assets	**469,732**	**-87,061**	**-24**	**10,943**	**-36,518**	**-**	**357,080**	**-85,890**
Liabilities								
Financial liabilities – FVO	5,309	752	-	-	-	-	6,061	752
Total equity and liabilities	**5,309**	**752**	**-**	**-**	**-**	**-**	**6,061**	**752**

Estimation uncertainties and judgements

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

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

31 Dec. 2022, EUR ’000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets – HFT	56,579	216	Hybrid Hull-White model	Global CDS spreads
Financial assets – mandatorily FVTPL (excl. HETA)	51,608	1,238	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets – mandatorily FVTPL, Stage 3 (excl. HETA)	966	11	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets – FVOCI	1,945	n/a	Adjusted net asset value (NAV) model; DCF model	Adjusted equity (for adjusted NAV model); WACC (for DCF model); cost of equity (for both models)
Total assets	**111,098**	**1,465**		
Financial liabilities – HFT	4,262	1		Global CDS spreads
Total equity and liabilities	**4,262**	**1**		

31 Dec. 2021, EUR ’000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets – HFT	242,048	388	Hybrid Hull-White model	Global CDS spreads
Financial assets – mandatorily FVTPL (excl. HETA)	72,671	1,828	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets – mandatorily FVTPL, Stage 3 (excl. HETA)	1,965	24	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets – FVOCI	2,092	n/a	Adjusted net asset value (NAV) model; DCF model	Adjusted equity (for adjusted NAV model); WACC (for DCF model); cost of equity (for both models)
Total assets	**318,776**	**2,240**		
Financial liabilities – HFT	-	-		
Total equity and liabilities	**-**	**-**		

The ranges for unobservable inputs to the “Financial assets – FVOCI (equity instruments)” item categorised as Level 3 are shown below.

Change in fair value EUR ’000	31 Dec. 2022	31 Dec. 2021
10% increase in adjusted equity	191	197
10% decrease in adjusted equity	-191	-197
50 bp increase in WACC	-	-2
50 bp decrease in WACC	-	3
50 bp increase in cost of equity	-10	-12
50 bp decrease in cost of equity	11	14

Measurement model for the HETA contingent additional purchase price (CAPP)

On 31 December 2021, HETA exited the resolution regime implemented under the Federal Act on the Recovery and Resolution of Banks. Since 1 January 2022 the company has been under resolution in accordance with the *Aktiengesetz* (Austrian Companies Act). In March 2022, HETA published its 2021 financial statements as well as an updated financial plan for the period to 2030.

Taking into account published documentation as compared with the results as at 31 December 2021, the main remeasurement pillars have remained unchanged.

The payment date assumed for the fixed payout ratio in the base scenario was changed from 31 December 2022 to 31 December 2023, as payment has yet to be made.

Separate scenarios will be simulated for expected payments based on the FMA payout ratio, and for payments which remain uncertain and are dependent on the continued wind-down process and the results of the liquidation procedure. The scenarios will then be combined to arrive at an overall payout rate. This will enable more precise reporting of different assumptions regarding maturities and expected returns.

For measurement of the payment according to the FMA payout ratio, the amount of which can be assumed to be relatively certain, three scenarios will be modelled (base, worse, worst) with different assumptions regarding the payment date. Due to the fixed payout ratio, no variations in the payment amount will be assumed. The probabilities of occurrence will be equally weighted, since at the reporting date there had been no firm indications of a prospective payment date. Potential payment dates are assumed to range from the next year until the scheduled conclusion of the liquidation procedure stated in the wind-down plan. To discount the payment to present value, in addition to the current yield curve and senior unsecured liquidity costs, a required rate of return for relatively certain cash flows is applied, which covers both operating costs and expected profit and is based on the average returns from interest-linked transactions at European banks.

The remaining, uncertain portion of the payout is calculated based on the HETA payout ratio (89.25%) less the FMA payout ratio, and the maximum value of the CAPP (10%). As with the relatively certain part of the payout, three different scenarios are modelled, with assumptions of the payment amount ranging from a maximum of 2.7% to 0%, and a range of payment dates. Again, the probability of occurrence is equally weighted for each of the scenarios, and the current yield curve, senior unsecured liquidity costs and a required rate of return are used for discounting. For risky transactions where the entire cash flow could be lost, the required rate of return is derived from the market risk premium for Austrian equity instruments and/or from comparable securities. This required rate of return is significantly higher than that for a relatively certain cash flow, as it includes substantially higher risks.

After discounting the forecast payments and applying the weightings, the CAPP payout ratio was valued at 6.76% as at year-end. The model produced a range of valuations between 4.75% and 8.24%. Compared with the previous year, the range of potential valuations is much wider due to the changes in the discounting parameters. Higher interest rates and liquidity costs coupled with the increase in the required rate of return for the uncertain part of the payout were the main factors behind the year-on-year decrease in the HETA valuation. The undiscounted results of the scenarios remained constant throughout the observation period.

Although uncertainties regarding the valuation of the CAPP have been reduced in the course of the wind-down, valuation is still subject to risks and uncertainties. In addition to overall economic developments, financial developments on the fixed-interest and capital markets, the progress of the wind-down of the assets and uncertainty over the outcomes of legal proceedings, in the past announcements and wind-down plans have in some cases deviated significantly from previous announcements. As a result, the recovery amount and the date(s) of payment of the CAPP are still uncertain. HETA's articles of association contain an obligation to continue preparing financial plans and publishing material insights related to them in future. If this leads to amendments in the parameter assumptions described here that underlie the model, this will also result in changes to the payout value. The effects of changes in significant unobservable inputs for the measurement model on the valuation are presented in the sensitivity analysis below.

The analysis shows the effects of average changes in individual parameters on the CAPP, with other inputs remaining constant (ceteris paribus). The effects are stated as percentages of the nominal value of the original HETA receivables. The impacts of changes in parameters on profit or loss are also shown, as absolute amounts stated in EUR thsd. The three inputs are Level 3 (unobservable) parameters. If the recovered amount falls by EUR 100m, this results in a 0.1 percentage point reduction in the valuation, or a loss of EUR 332thsd. A reduction in the discount rate and bringing the payout date forward by one year would result in a higher valuation.

31 Dec. 2022 Sensitivity analysis: Level 3 parameters	Recovery, EUR m		Discount rate		Payout date, years	
	+100	-100	+1%	-1%	+1	-1
Valuation sensitivity to profit or loss (%)	0.0%	-0.1%	-0.2%	0.3%	-0.4%	0.4%
Valuation sensitivity to profit or loss (EUR ’000)	-	-332	-729	778	-1,163	1,244

31 Dec. 2021 Sensitivity analysis: Level 3 parameters	Recovery, EUR m		Discount rate		Payout date, years	
	+100	-100	+1%	-1%	+1	-1
Valuation sensitivity to profit or loss (%)	0.0%	-0.2%	-0.4%	0.4%	-0.1%	0.1%
Valuation sensitivity to profit or loss (EUR ’000)	-	-460	-1,089	1,178	-432	453

5 ADDITIONAL NOTES TO THE STATEMENT OF PROFIT OR LOSS

5.1 Net fee and commission income

Significant accounting policies

“Fee and commission income” is measured on the basis of prices agreed with customers for the performance obligation in question. Income is judged to have been recognised in profit or loss if the performance obligation has been satisfied and a promised good or service is transferred to the customer.

Services provided over time result in the ongoing accrual of benefits to the customer. The commissions generated are recognised according to the degree of progress towards satisfaction of the performance obligation in the performance period, and amortised in the appropriate period. Such commissions include account maintenance fees, service fees and portfolio administration charges, which are usually payable monthly or quarterly, depending on the contractual conditions. Transaction-related performance is recognised as soon as the service in question has been provided in full. This mainly relates to commissions from payment transactions, the securities and lending businesses, and foreign exchange transactions.

Fee and commission income that is an integral component of the effective rate of interest on a financial instrument is reported as interest income. In accordance with IFRS, trust transactions entered into by the HYPO NOE Group in its own name but for the account of third parties are not shown in the statement of financial position. Any fees and commissions are reported in the statement of comprehensive income. Contract assets and liabilities are reported in accordance with IFRS 15, under Note 6.3 “Other assets and liabilities”.

2022, EUR ’000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Total
Fee and commission income	**-129**	**1,309**	**15,502**	**646**	**-27**	**17,301**
Securities and custody account business	111	-	4,430	401	21	4,964
Payment transactions	689	749	5,955	95	-41	7,447
Foreign exchange, foreign notes and coins, and precious metals	43	58	285	22	-	407
Other services	-862	2	4,154	124	35	3,451
Other fee and commission income	-110	501	679	4	-42	1,032
Fee and commission expense	**-86**	**-38**	**-1,318**	**-807**	**6**	**-2,243**
Securities and custody account business	-10	-	-76	-414	-	-501
Payment transactions	-24	-17	-1,200	-392	-	-1,634
Other services	-	-	-34	-	-	-34
Other fee and commission expense	-51	-21	-9	-	6	-74
Total	**-215**	**1,271**	**14,184**	**-161**	**-21**	**15,058**

2021, EUR ’000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Total
Fee and commission income	**3,347**	**1,265**	**16,960**	**493**	**-92**	**21,974**
Securities and custody account business	228	4	5,916	331	2	6,480
Payment transactions	556	725	5,481	58	-34	6,786
Foreign exchange, foreign notes and coins, and precious metals	36	33	427	15	-9	502
Other services	2,678	21	4,154	89	-2	6,939
Other fee and commission income	-150	481	983	-	-48	1,267
Fee and commission expense	**-115**	**-58**	**-2,238**	**-701**	**-**	**-3,112**
Securities and custody account business	-37	-1	-1,110	-356	-	-1,504
Payment transactions	-21	-22	-1,103	-345	-4	-1,497
Other services	-	-	-19	-	-	-19
Other fee and commission expense	-57	-34	-7	-	5	-93
Total	**3,232**	**1,208**	**14,722**	**-208**	**-91**	**18,862**

5.2 Net other operating income

EUR ’000	2022	2021
Other income	**13,045**	**20,172**
Gains on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	73	114
Gains on the reversal of provisions	437	30
Gains on foreign currency translation	-	3,455
Gains on deconsolidation	285	942
Gains on investment property	3,095	2,527
Other rental income	410	316
Income from real estate services and property development	2,699	7,285
Income from early repayments	4,749	3,509
Sundry other income	1,297	1,993
Other expenses	**-10,635**	**-14,851**
Losses on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	-24	-
Expenses arising from the recognition of provisions	-5,319	-10,312
Losses on foreign currency translation	-2,754	-
Losses on investment property	-1,801	-1,910
Expenses arising from real estate services and property development	-	-2,214
Sundry other expenses	-738	-414
Total	**2,409**	**5,322**

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

Net gains or losses on deconsolidation

EUR '000	2022	2021
Cash and balances at central banks	-	79
Financial assets – AC	158	107
Intangible assets	-	40
Property, plant and equipment	21	829
Deferred tax assets	15	36
Other assets	-	2,930
Total assets	**194**	**4,021**
Provisions	76	642
Current tax liabilities	-	77
Other liabilities	28	2,758
Total liabilities	**104**	**3,477**
Proceeds of disposal	195	1,477
+ Fair value of remaining interest held by the Group	180	-
- Assets disposed of	-194	-4,021
+ Liabilities disposed of	104	3,477
Net gains on disposal of consolidated subsidiaries	**285**	**934**
FVOCI reserve	-	8
Net gains on disposal of consolidated subsidiaries through profit or loss	**285**	**942**

EUR '000	2022	2021
Consideration received in cash and cash equivalents	195	1,477
Cash proceeds from the disposal of subsidiaries	**195**	**1,477**
Amount outstanding from the corporate transaction	-	-

5.3 Administrative expenses

5.3.1 Analysis of administrative expenses

EUR '000	2022	2021
Staff costs	**-53,640**	**-55,680**
Wages and salaries	-41,591	-43,410
Pensions and other employee benefit expenses	-12,048	-12,270
Other administrative expenses	**-44,986**	**-41,393**
Premises	-3,859	-3,128
Office and communication expenses	-1,110	-1,218
IT expenses	-13,098	-11,192
Legal and consultancy costs	-2,513	-2,080
Auditors: annual audit	-530	-460
Auditors: other auditing services	-38	-59
Auditors: tax consultancy services	-	-164
Advertising and entertainment expenses	-4,316	-4,120
Other administrative expenses	-20,090	-19,655
Financial stability contribution (bank tax)	-3,128	-2,955
Deposit insurance fund and resolution fund	-11,574	-11,214
Cost of compliance with company law	-494	-586
Training costs	-580	-584
Vehicle and fleet expenses	-269	-338
Insurance	-512	-488
Cost of information procurement and payment transactions	-688	-833
Depreciation, amortisation and impairment	**-4,029**	**-4,391**
Intangible assets	-116	-175
Buildings used by Group companies	-1,501	-1,560
Equipment, fixtures and furnishings (incl. low value assets)	-2,106	-2,245
Right-of-use assets (IFRS 16)	-307	-411
Administrative expenses	**-102,655**	**-101,465**

5.3.2 Staff costs

The "Supervisory Board members' remuneration" sub-item forms part of "Other administrative expenses", but is shown in the supplementary information on staff costs in the interests of readability. All of the information in the two tables below relates to the individuals who held the positions concerned at the end of or during the reporting period.

At the HYPO NOE Group, "identified staff" comprise persons who are directly or indirectly responsible for planning, managing and supervising the Group's activities. These are the Management Board, Supervisory Board and key management. A list of key management staff including their names and functions, and the Group companies of which they are employees, is updated at the end of each reporting period.

	2022	2021
Average number of employees (incl. on parental leave)	630	718
Average number of employees (excl. on parental leave)	603	633

EUR '000	2022	2021
Termination benefit expenses incl. provident fund for:	**-979**	**-1,012**
Management Board	-16	-15
Key management	-56	-62
Other employees	-908	-934
Pension expenses for:	**-1,323**	**-1,316**
Management Board	-101	-96
Key management	-152	-150
Other employees (including former employees)	-1,071	-1,070
Expenses for former officers	**-310**	**-314**
Former Management Board members: total remuneration	-310	-314

EUR '000	2022	2021
Salaries of Management Board members	**-1,150**	**-1,102**
Total remuneration of Management Board	-1,150	-1,102
Supervisory Board members' remuneration (non-employees)	**-121**	**-117**
Supervisory Board members' salaries	**-482**	**-464**
Remuneration of key management	**-5,732**	**-5,739**
Short-term employee benefits	-5,732	-5,739

6 ADDITIONAL NOTES TO THE STATEMENT OF FINANCIAL POSITION

6.1 Investment property, intangible assets, and property, plant and equipment

Significant accounting policies

Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are stated as property, plant and equipment. Land and buildings held to earn rentals or for expected capital appreciation are classified as investment property. Mixed-use properties where the degree of own use is immaterial are reported under “Investment property”. The HYPO NOE Group does not apply the requirements for lessees under IFRS 16 to short-term leases or leases for which the underlying asset is of low value.

The HYPO NOE Group held only intangible assets acquired for consideration and no self-constructed intangible assets in 2022.

The fair value of investment property is measured every three years by independent external assessors in accordance with paragraph 34 IAS 16.

Depreciation, amortisation and impairment are reported as “Administrative expenses” (Note 5.3). Gains and losses on disposal of property, plant and equipment, and current income and expenses from investment property are reported as profit or loss, under “Net other operating income” (Note 5.2).

All the lease agreements concluded by the HYPO NOE Group as a lessee are operating leases. Depreciation and amortisation of right-of-use assets is recognised under “Administrative expenses” (Note 5.3). In accordance with IFRS 16, lease liabilities are reported under “Other assets and liabilities” (Note 6.3), while interest expense on lease liabilities is recognised in “Net interest income” (Note 4.2.1).

Estimation uncertainties and judgements

The items “Investment property”, “Intangible assets” and “Property, plant and equipment” are measured at cost less accumulated depreciation. 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 alterations	25-50 years
- Equipment, fixtures and furnishings	3-15 years
- Computer software and hardware	3-5 years
- Right-of-use assets (IFRS 16)	4-10 years

Pursuant to IAS 36, indications of impairment result in an impairment test in order to determine the recoverable amount. Impairment is recognised as necessary. In 2022 no impairments were recognised under the “Investment property”, “Intangible assets” or “Property, plant and equipment” items (2021: nil).

EUR ’000	2022	2021
Other income from investment property	**3,095**	**2,527**
Rental income	1,786	2,144
Other income	371	383
Income from disposals	938	-
Other expenses arising from investment property	**-1,801**	**-1,910**
Depreciation, amortisation and impairment	-1,401	-1,567
Expenses arising from let investment property	-399	-338
Total	**1,294**	**617**

	31 Dec. 2022		31 Dec. 2021	
EUR ’000	Carrying amount	Fair value	Carrying amount	Fair value
Land and buildings	54,597	71,988	55,940	69,756
Investment property	24,671	38,861	33,518	46,674

The table below shows movements in intangible assets, property, plant and equipment, and investment property.

	Cost						
EUR ’000	1 Jan. 2022	Changes in scope of consolidation	Additions	Disposals	Transfers	Other changes	31 Dec. 2022
Software	8,720	-28	393	-213	-	-	8,872
Goodwill	32	-	-	-32	-	-	-
Intangible assets	**8,752**	**-28**	**393**	**-245**	**-**	**-**	**8,872**
Land	13,004	-	-	-	-	-	13,004
Buildings	60,151	-	158	-	-	-	60,310
IT equipment	4,030	-12	428	-2,184	-	-	2,263
Equipment, fixtures and furnishings	34,814	-1	1,130	-3,586	-	-	32,357
Right-of-use assets (IFRS 16)	2,001	-	75	-99	-	97	2,073
Other property, plant and equipment	382	-32	46	-40	-	-	356
Property, plant and	**114,381**	**-45**	**1,837**	**-5,908**	**-**	**97**	**110,362**
Investment property	**46,013**	**-**	**386**	**-11,285**	**-**	**-195**	**34,920**

	Accumulated depreciation and amortisation						Carrying amount	
EUR ’000	1 Jan. 2022	Changes in scope of consolidation	Depre-ciation, amortisation and impair-ment	Transfers	Disposals	31 Dec. 2022	1 Jan. 2022	31 Dec. 2022
Software	-8,523	28	-116	-	213	-8,398	197	474
Goodwill	-32	-	-	-	32	-	-	-
Intangible assets	**-8,556**	**28**	**-116**	**-**	**245**	**-8,398**	**197**	**474**
Land	-19	-	-1	-	-	-20	12,984	12,983
Buildings	-17,196	-	-1,500	-	-	-18,696	42,956	41,614
IT equipment	-3,611	12	-321	-	2,173	-1,747	419	517
Equipment, fixtures and furnishings	-26,707	1	-1,741	-	3,481	-24,966	8,107	7,390
Right-of-use assets (IFRS 16)	-775	-	-307	-	99	-982	1,226	1,091
Other property, plant and equipment	-132	11	-43	-	40	-125	250	231
Property, plant and	**-48,439**	**24**	**-3,913**	**-**	**5,793**	**-46,536**	**65,942**	**63,826**
Investment property	**-12,495**	**-**	**-1,401**	**-**	**3,647**	**-10,249**	**33,518**	**24,671**

	Cost						
EUR '000	1 Jan. 2021	Changes in scope of consolidation	Additions	Disposals	Transfers	Other changes	31 Dec. 2021
Software	8,954	-365	172	-40	-	-	8,720
Goodwill	877	-845	-	-	-	-	32
Intangible assets	**9,831**	**-1,210**	**172**	**-40**	**-**	**-**	**8,752**
Land	13,004	-	-	-	-	-	13,004
Buildings	61,959	-111	429	-2,126	-	-	60,151
IT equipment	3,890	-129	362	-138	45	-	4,030
Equipment, fixtures and furnishings	31,650	-598	4,209	-401	-45	-	34,814
Right-of-use assets (IFRS 16)	3,020	-1,028	369	-269	-172	80	2,001
Other property, plant and equipment	221	-	209	-49	-	-	382
Property, plant and	**113,743**	**-1,866**	**5,579**	**-2,983**	**-173**	**80**	**114,381**
Investment property	**48,779**	**-**	**2,875**	**-5,458**	**-**	**-182**	**46,013**

	Accumulated depreciation and amortisation						Carrying amount	
EUR '000	1 Jan. 2021	Changes in scope of consolidation	Depre-ciation, amortis ation and impair-ment	Transfers	Dispo sals	31 Dec. 2021	1 Jan. 2021	31 Dec. 2021
Software	-8,713	325	-175	-	40	-8,523	241	197
Goodwill	-877	845	-	-	-	-32	-	-
Intangible assets	**-9,590**	**1,170**	**-175**	**-**	**40**	**-8,556**	**241**	**197**
Land	-19	-	-1	-	-	-19	12,985	12,984
Buildings	-17,789	26	-1,559	-	2,126	-17,196	44,170	42,956
IT equipment	-3,616	107	-195	-45	138	-3,611	273	419
Equipment, fixtures and furnishings	-25,522	375	-1,994	45	388	-26,707	6,128	8,107
Right-of-use assets (IFRS 16)	-1,199	528	-411	172	135	-775	1,821	1,226
Other property, plant and equipment	-124	-	-57	-	49	-132	97	250
Property, plant and equipment	**-48,269**	**1,037**	**-4,216**	**173**	**2,836**	**-48,439**	**65,475**	**65,942**
Investment property	**-12,086**	**-**	**-1,567**	**-**	**1,158**	**-12,495**	**36,693**	**33,518**

6.1.1 Operating leases (with the Group as lessor)

EUR '000	2022	2021
Income from operating leases		
Investment property	1,786	2,144
Property, plant and equipment	410	316

EUR '000	2022	2021
Future minimum lease payments on non-cancellable leases		
Up to 1 year	1,562	1,753
1 to 2 years	1,557	1,708
2 to 3 years	1,542	1,708
3 to 4 years	1,513	1,693
4 to 5 years	1,513	1,663
Over 5 years	22,054	28,085
Total	**29,741**	**36,611**

6.1.2 Right-of-use assets (IFRS 16)

EUR '000	31 Dec. 2022			31 Dec. 2021		
Right-of-use assets (IFRS 16)	Carrying amount	Additions	Depreciation and amortisation	Carrying amount	Additions	Depreciation and amortisation
Land and buildings	1,091	75	-307	1,226	369	-360
Vehicles	-	-	-	-	-	-18
Parking spaces	-	-	-	-	-	-23
IT equipment	-	-	-	-	-	-10
Total	**1,091**	**75**	**-307**	**1,226**	**369**	**-411**

EUR '000	2022	2021
Leases with the Group as lessee – supplementary information		
Payments for leases on low-value assets	-27	-3
Short-term lease payments	-561	-584
Total cash outflow for leases	-912	-925

6.2 Provisions

Significant accounting policies

Employee benefit provisions

There are both defined contribution and defined benefit plans in the HYPO NOE Group. Under the former, 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.

Since 1 January 2019 the defined contribution entitlements have been administered by APK Pensionskasse AG. Under the works agreement in force at HYPO NOE Landesbank and HYPO NOE Leasing GmbH since 1 January 2019, 3.0% of eligible salaries are paid to the pension fund on behalf of ordinary employees, 6% on behalf of departmental heads with all-in contracts, and 9.76% on behalf of divisional heads and other management members of like status. Where there were different agreements on contributions in the past, these remain in force. In the case of employees who joined the pension scheme on or before 31 December 2012, the employer's contributions vested five years after payments began; in that of employees joining on or after 1 January 2013, they did so three years after commencement. Since 1 January 2019 eligibility for employer's contributions has been conditional on two years' service; prior service may be counted (for entrants before 1 January 2019 the waiting period was five years). At HYPO NOE Officium GmbH, the pension fund arrangements apply to one chief executive, but no contributions have yet been paid.

There are also defined benefit pension, and termination and jubilee benefit commitments. The plans are not financed by a fund. 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 at the present value of the defined benefit obligation (DBO). Actuarial gains and losses on the termination benefit and pension provision are recognised in equity, under the "Actuarial gains and losses recognised in other reserves" item. Actuarial gains and losses on the jubilee benefit provision are shown under "Administrative expenses" (Note 5.3) in the statement of profit or loss.

Disclosures on employee benefits

Current service cost and interest cost are recognised in profit or loss, under "Staff costs" (Note 5.3.2). The actuarial gains and losses are due entirely to changes in the financial assumptions applied.

The HYPO NOE 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 HYPO NOE Group has no 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 surviving dependents where the latter have entitlements. The remaining obligations have been transferred to an outside pension fund. The average duration of the pension obligation is 9.3 years, and that of the termination benefit obligation is 10.7 years. The HYPO NOE Group does not have any plan assets.

There are termination benefit obligations under superseded legislation. These are to employees who entered the service of the Group before 1 January 2003 and have not already received 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 "Staff costs" [Note 5.3.2]). The jubilee benefits depend on employees' length of service and are governed by the collective agreement applicable to the employment contract concerned.

Credit provisions

This item comprises provisions for credit risks such as unused but irrevocable credit lines and guarantees.

Other provisions

Allocations to and reversals of the other provisions are made to/charged to the various profit or loss items concerned on a causation basis.

Estimation uncertainties and judgements

Employee benefit provisions

Measurement of the long-term employee benefit provisions was based on the statutory retirement ages of 60 for women and 65 for men. Account was taken of the staged increase in the retirement age for women from 60 to 65.

As in previous years, the discount rate applied to measurement at the end of the reporting period was determined on the basis of investment-grade industrial bonds and finalised in consultation with experts in the eurozone.

Interest rate for	31 Dec. 2022	31 Dec. 2021
Discount rate	3.80%	1.05%
Future salary increases	3.50%	2.50%
Future pension increases	3.00%	2.00%
Adjustment for employee turnover applied to jubilee benefits	10.70%	8%/15%*

*up to 34 years: 15%; 34 years and above: 8%

Measurement was based on the biometric estimates contained in the latest Austrian actuarial table for pension insurance, “AVÖ 2018 – 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

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

Measurement is based on estimates by experts, on the Bank’s own experience, and on discounted cash flow methods. The carrying amounts reflect best estimates of the expenditure (outflow of resources) required to settle the obligations. Measurement was on the basis of scenarios reflecting assumptions as to an average settlement percentage and the expected outflow of resources in the absence of precedents. In accordance with paragraph 45 IAS 37, a discount rate of 3.3% (31 Dec. 2021: 0%) was applied in the scenarios. As regards the sensitivity of the provision, a notional increase in the discount rate of 0.5% would mean a reduction in the provision of EUR 302thsd (2021: EUR 364thsd).

As at 31 December 2022 the provision for negative interest rates in connection with corporate loan agreements, carried under “Other provisions”, amounted to EUR 48,342thsd (31 Dec. 2021: EUR 43,292thsd). As this provision relates to a legal risk, allocations to it are recognised in “Other operating expense”, while any reversals are reported under “Other operating income”.

6.2.1 Movements in provisions

EUR '000	1 Jan. 2022	Changes in scope of consolidation	Allo-cations	Utilisation	Reversals	Discount unwinding effect	Remea-sure-ment	31 Dec. 2022
Employee benefit provisions	**29,384**	**-4**	**586**	**-2,177**	**-**	**315**	**-5,241**	**22,864**
Provisions for pensions	17,913	-	-	-1,230	-	188	-3,626	13,245
Provisions for termination benefits	8,670	-	369	-893	-	95	-911	7,330
Provisions for jubilee benefits	2,801	-4	217	-54	-	32	-704	2,288
Credit provisions	**3,342**	**-**	**2,465**	**-**	**-2,570**	**-**	**-**	**3,236**
Other provisions	**44,136**	**-73**	**5,319**	**-76**	**-437**	**-**	**-**	**48,870**
Total	**76,862**	**-76**	**8,370**	**-2,253**	**-3,007**	**315**	**-5,241**	**74,970**

The decrease of EUR 6,520thsd in the employee benefit provisions is largely explained by annual remeasurement (comparison of the parameter assumptions with the actual figures). The details are provided in Note 6.2.2 Disclosures on employee benefits. The “Changes in scope of consolidation” column includes the reversal of employee benefit provisions due to the deconsolidation of a consolidated subsidiary.

6.2.2 Disclosures on employee benefits

Estimation uncertainties and judgements

The other tables present sensitivity analyses that show how changes in some parameters (the discount rate, salary and pension increases, 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 models DBO given that the parameters remain unchanged from the previous year.

Provision for pensions, EUR '000	DBO
Carrying amounts as at 31 Dec. 2022: 0.25% discount rate increase	
Discount rate 4.05%; salary increase 3.5%; pension increase 3%	12,951
Carrying amounts as at 31 Dec. 2022: 0.25% discount rate reduction	
Discount rate 3.55%; salary increase 3.5%; pension increase 3%	13,552
Carrying amounts as at 31 Dec. 2022: 0.25% pension increase	
Discount rate 3.8%; salary increase 3.5%; pension increase 3.25%	13,552
Carrying amounts as at 31 Dec. 2022: 0.25% pension reduction	
Discount rate 3.8%; salary increase 3.5%; pension increase 2.75%	12,951
Carrying amounts as at 31 Dec. 2022: one-year increase in life expectancy	
Discount rate 3.8%; salary increase 3.5%; pension increase 3%	13,927
Carrying amounts as at 31 Dec. 2022: one-year decrease in life expectancy	
Discount rate 3.8%; salary increase 3.5%; pension increase 3%	12,577
Carrying amounts as at 31 Dec. 2022: previous year's discount rate	
Discount rate 1.05%; salary increase 3.5%; pension increase 3%	15,693

Provision for termination benefits, EUR '000	DBO
Carrying amounts as at 31 Dec. 2022: 0.25% discount rate increase	
Discount rate 4.05%; salary increase 3.5%; pension increase 3%	7,145
Carrying amounts as at 31 Dec. 2022: 0.25% discount rate reduction	
Discount rate 3.55%; salary increase 3.5%; pension increase 3%	7,523
Carrying amounts as at 31 Dec. 2022: 0.25% salary increase	
Discount rate 3.8%; salary increase 3.75%; pension increase 3%	7,533
Carrying amounts as at 31 Dec. 2022: 0.25% salary reduction	
Discount rate 3.8%; salary increase 3.25%; pension increase 3%	7,134
Carrying amounts as at 31 Dec. 2022: previous year's discount rate	
Discount rate 1.05%; salary increase 3.5%; pension increase 3%	8,203

Type of provision

EUR '000	Pensions	Termination benefits	Jubilee benefits	Total
Present value of DBO at 31 Dec. 2020	**19,262**	**9,822**	**2,719**	**31,803**
Change in scope of consolidation	365	-382	-	-16
Service cost	-	412	227	639
Interest cost	167	84	25	276
Payments	-1,308	-461	-34	-1,803
Actuarial gains and losses recognised in profit or loss	-	-	-136	-136
Actuarial gains and losses not recognised in profit or loss	-573	-805	-	-1,378
Present value of DBO at 31 Dec. 2021	**17,913**	**8,670**	**2,801**	**29,384**
Change in scope of consolidation	-	-	-4	-4
Service cost	-	369	217	586
Interest cost	188	95	32	315
Payments	-1,230	-893	-54	-2,177
Actuarial gains and losses recognised in profit or loss	-	-	-704	-704
Actuarial gains and losses not recognised in profit or loss	-3,626	-911	-	-4,537
Present value of DBO at 31 Dec. 2022	**13,245**	**7,330**	**2,288**	**22,864**

The following table shows the present values of the DBOs in respect of the employee benefit provisions (pensions, termination benefits and jubilee benefits) as at 31 December 2022, and the service and interest cost, as well as the underlying assumptions (discount rate, and salary and pension increases) for 2023 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.

31 Dec. 2023 (forecast), EUR ’000 **Discount rate 3.8%; salary increase 3.5%; pension increase 3%**	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
DBO	13,245	7,330	2,288	22,864
Current service cost	-	301	163	465
Interest cost	503	290	93	886
Supervisory and Management boards				
DBO	-	331	54	385
Service cost	-	14	2	16
Interest cost	-	13	2	15
Key management staff				
DBO	-	506	147	653
Service cost	-	21	8	29
Interest cost	-	20	6	26

6.3 Other assets and liabilities

Significant accounting policies

“Other assets and liabilities” largely relates to other non-bank receivables and liabilities.

Following conclusion in November 2022 of an energy supply agreement that runs until 2025, the HYPO NOE Group only uses electricity generated from renewable sources. After the agreement was concluded, a prepayment of EUR 202thsd was made for future electricity consumption. This is recognised under “Other assets” in the accruals and deferrals, and contract assets in accordance with IFRS 15 item. The prepayment was equivalent to 31.25% of the agreed electricity price. This had the effect of locking in the electricity price paid by the Group in 2023. As the agreed quantity of electricity will solely cover the HYPO NOE Group’s own requirements, the Group decided to apply the own use exemption provided for in paragraph 2.4 IFRS 9 to the agreement, which is thus recognised as a pending agreement.

Other assets

EUR ’000	31 Dec. 2022	31 Dec. 2021
Accruals and deferrals, and contract assets in accordance with IFRS 15	6,403	6,760
VAT and other tax credits (other than income tax)	476	758
Trade receivables	2,757	4,147
Offset receivables (public loan management)	6,957	1,926
Other offset receivables	5,618	2,756
Immaterial equity investments	475	673
Sundry other receivables	1,066	884
Other assets	**23,751**	**17,904**

Other liabilities

EUR ’000	31 Dec. 2022	31 Dec. 2021
Accruals and deferrals, and contract liabilities in accordance with IFRS 15	5,536	24,059
VAT and other tax liabilities (other than income tax)	6,397	6,200
Trade payables	34,995	34,775
Offset liabilities (public loan management)	1,230	2,421
Other offset liabilities	2,313	1,810
Employee liabilities	4,773	5,453
Lease liabilities in accordance with IFRS 16	1,092	1,227
Firm commitments	13,494	184
Sundry other liabilities	1,881	2,352
Other liabilities	**71,711**	**78,481**

The increase in “Firm commitments” was due to a basis adjustment recognised for a future fixed-interest loan of a higher amount that had already been contractually agreed. The table below shows a maturity analysis in accordance with paragraph 58 IFRS 16 for the lease liabilities contained in “Other liabilities”. Further information on the HYPO NOE Group in its capacity as a lessee can be found in “Right-of-use assets (IFRS 16)” (Note 6.1.2).

EUR ’000	2022	2021
Lease liabilities by term		
Up to 1 year	307	283
1 to 2 years	197	266
2 to 3 years	167	153
3 to 4 years	133	144
4 to 5 years	119	110
Over 5 years	168	271
Total	**1,092**	**1,227**

7 TAXES

Significant accounting policies

Current tax assets and liabilities are measured at current rates and in the amounts expected to be paid to, or recovered from the tax authorities. HYPO NOE Landesbank is liable to tax in Austria. Since 2008, use has been made of the option of group taxation, with HYPO NOE Landesbank acting as the tax group parent company. To this end, the parent has concluded group taxation agreements governing tax contributions, reporting duties and due dates with each group member. Positive tax contributions are reported as 25% of a Group entity's profit, and negative tax contributions as 20% of its loss.

Deferred tax assets and liabilities are measured using the balance sheet liability method. 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 and liabilities are offset within the tax group, in accordance with paragraph 74 IAS 12.

Deferred tax assets and liabilities are recognised and reversed either in profit or loss, under "Income tax expense", or in equity if the underlying item is recognised outside profit or loss (e.g. under "Other reserves composed of debt instruments – FVOCI").

Due to the phased reduction of the corporate income tax rate adopted in Austria, to 23% from 2024, the HYPO NOE Group has applied the reduced rate of 23% to the calculation of deferred taxes in this year's statements, as the deferred tax assets and liabilities carried will not reverse until future periods.

Estimation uncertainties and judgements

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 an updated budget for each company, and a distinction is made between realisable and non-realisable tax loss carryforwards. The assumed time horizon is five years (or, in the case of project companies, a horizon equal to the contractual term). The carrying amounts of deferred tax assets arising from tax loss carryforwards and temporary differences are reviewed at the end of each reporting period. No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 2,080thsd (2021: EUR 2,430thsd).

7.1 Income tax

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

EUR ’000	2022	2021
Current income tax	-13,865	-12,766
Current income tax on previous years	-27	117
Deferred income tax	-588	393
Total	**-14,453**	**-12,373**

7.2 Tax reconciliation

A reconciliation of the expense that would result from applying the standard rate of corporate income tax to the reported tax expense is shown below.

EUR ’000	2022	2021
Profit before tax	**61,580**	**54,228**
x income tax rate	**25%**	**25%**
= anticipated income tax expense	**-15,395**	**-13,557**
Reductions in tax liability	**977**	**1,401**
Tax-free income from investments	564	244
Other tax-free income	413	402
Investments accounted for using the equity method	-	755
Increases in tax liability	**-1,694**	**-1,034**
Non-deductible expenses	-1,025	-1,034
Investments accounted for using the equity method	-669	-
Tax effects of other differences	**1,659**	**817**
Adjustments to and non-recognition of deferred tax	1,826	-
Previous years	-127	857
Prepayments	-6	-6
Other adjustments	-34	-35
Total	**-14,453**	**-12,373**

The “Increases in tax liability” arise from non-deductible expenses, such as the financial stability contribution which has not been tax-deductible since 2017.

The “Adjustments to and non-recognition of deferred tax” solely concern the effect of the phased reduction in the rate of corporation tax to 23%, starting in 2024, which is central to the measurement and recognition of deferred tax.

7.3 Deferred income tax

EUR '000	Net deferred taxes, 1 Jan. 2022	Changes in scope of console-dation	Change in 2022		Net deferred taxes, 31 Dec. 2022	Assets	Liabilities
			Recognis-ed in profit or loss	Recognis-ed outside profit or loss			
Financial assets – HFT	-64,450	-	50,049	-	-14,401	-	-14,401
Financial assets – mandatorily FVTPL	-1,778	-	463	-	-1,315	-	-1,315
Financial assets – FVOCI	-11,997	-	9,196	1,402	-1,398	1	-1,399
Financial assets – AC	-143,833	-	187,228	-	43,395	69,080	-25,685
Positive fair value of hedges (hedge accounting)	-63,198	-	-23,848	-	-87,046	-	-87,046
Other assets (statement of financial position)	-28	-	983	-	955	2,143	-1,188
Financial liabilities – HFT	62,761	-	-49,838	-	12,923	12,923	-
Financial liabilities – AC	40,392	-	-181,400	-	-141,008	-	-141,008
Negative fair value of hedges (hedge accounting)	150,788	-	9,981	-	160,768	160,768	-
Other liabilities (statement of financial position)	884	-15	-2,154	-1,142	-2,428	4,532	-6,960
Tax loss carryforwards available for use without time limit	8,513	-	-1,248	-	7,265	7,265	-
less deferred tax liabilities	-	-	-	-	-	-256,388	256,388
Total	**-21,945**	**-15**	**-588**	**260**	**-22,288**	**325**	**-22,613**

EUR '000	Net deferred taxes, 1 Jan. 2021	Changes in scope of console-dation	Change in 2021		Net deferred taxes, 31 Dec. 2021	Assets	Liabilities
			Recognis-ed in profit or loss	Recognis-ed outside profit or loss			
Financial assets – HFT	-88,164	-	23,714	-	-64,450	-	-64,450
Financial assets – mandatorily FVTPL	-7,799	-	6,022	-	-1,778	-	-1,778
Financial assets – FVOCI	-17,113	-	4,724	393	-11,997	1	-11,998
Financial assets – AC	-194,983	-	51,150	-	-143,833	98	-143,931
Positive fair value of hedges (hedge accounting)	-96,841	-	33,644	-	-63,198	-	-63,198
Other assets (statement of financial position)	183	24	-235	-	-28	1,554	-1,582
Financial liabilities – HFT	86,163	-	-23,402	-	62,761	62,761	-
Financial liabilities – AC	86,446	-	-46,053	-	40,392	40,392	-
Negative fair value of hedges (hedge accounting)	200,027	-	-49,239	-	150,788	150,788	-
Other liabilities (statement of financial position)	1,025	-54	169	-256	884	4,007	-3,124
Tax loss carryforwards available for use without time limit	8,614	-	-101	-	8,513	8,513	-
less deferred tax liabilities	-	-	-	-	-	-267,764	267,764
Total	**-22,445**	**-30**	**393**	**137**	**-21,945**	**352**	**-22,297**

Net deferred tax credits of EUR 260thsd (2021: EUR 137thsd) were recognised directly in equity. The basis for non-recognition of deferred tax in profit or loss for associates and joint ventures was positive by EUR 2,676thsd (31 Dec. 2021: negative by EUR 3,020thsd).

The deductible temporary differences arising from differences between tax and accounting valuations related to interests in affiliated companies, joint ventures and associates, for which no deferred tax liabilities were recognised, totalled EUR 363thsd (2021: EUR 698thsd). Unrecognised deferred tax liabilities arising from differences between the tax bases of interests in affiliated companies, joint ventures and associates, measured by shares of net assets held, amounted to EUR 18,813thsd (2021: EUR 19,773thsd).

8 RISK MANAGEMENT

The HYPO NOE Group defines risk as the possibility of unexpected, unfavourable future developments that could have an adverse impact on the assets, earnings or liquidity of the Group or of individual subsidiaries.

Development of all significant business activities derived from the Group's strategic objectives takes strategic risk factors into account, with a strong focus on risk-bearing capacity. The Bank attaches particular importance to the assessment of risks in the light of the risk-reward ratio. Risks are not ends in themselves but are assumed in the interests of value creation and hence improved risk-bearing capacity, as well as adequate returns on risk capital. The refinement of instruments and processes aimed at maintaining an adequate risk-reward ratio is viewed as an integral element of the Group's long-term business development strategy.

The Group's risk-bearing capacity is safeguarded by maintaining a balanced relationship between risks and coverage capital. To this end, 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.

8.1 Risk management system

Achieving business success necessarily involves taking risks. The HYPO NOE Group practises active risk transformation and risks are consciously incurred in connection with it. The Group's risk management objectives are to identify, measure, actively manage and monitor all risks arising from banking operations (credit, market, liquidity, operational, reputational and other risks).

The Group's organisational structure provides for a clear separation of front and back office functions (four-eye principle) at every level up to and including the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast an additional, independent vote that confers final approval. The internal division of responsibilities requires the unanimous approval of the front and back office functions for all business decisions that would alter the risk profile. There are also rules for the ultimate approval of exposures requiring resolutions of the Group's Supervisory Board.

In principle, all risks throughout the HYPO NOE Group are subject to a Group-wide, uniform limit system, which is constantly monitored. A Group-wide risk reporting system ensures timely, regular and comprehensive risk reporting. In addition to the quarterly risk management report, which provides an aggregated summary of all identified material capital risks and the available capital coverage, and the monthly analysis of insolvency risk, the Management and Supervisory Boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk-related developments.

The disclosures required by Part 8 of the CRR are made on a consolidated basis for the HYPO NOE Group, in a separate document posted on the corporate website (en.hyponoe.at).

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

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. In spite of the risk management methods and internal control processes in place, the Group may still be exposed to unknown and unexpected risks. Neither can the risk management techniques and strategies applied completely rule out the future occurrence of risks.

8.2 Aggregate risk management and risk-bearing capacity (ICAAP)

The identification, quantification and oversight of total Bank risk at portfolio level is the responsibility of the Strategic Risk Management Department, and encompasses the identification, measurement, aggregation and analysis of all the risks assumed, assessment of the adequacy of economic capital in relation to the risk profile, and the use and ongoing refinement of appropriate risk management systems.

The minimum capital requirement is calculated using the standardised approach set out in Pillar 1 of the Basel regulations. All material risks are actively managed as part of the Group's internal risk management process (Pillar 2) and in compliance with the disclosure requirements (Pillar 3).

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

1. The economic gone concern control loop provides creditor protection against exposure to customer liquidation. Risks are measured at a high confidence level of 99.9% with a one-year holding period, and compared with the risk coverage capital available in the event of liquidation.

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

The HYPO NOE Group's risks and risk coverage capital for the purposes of the economic control loop are shown below.

Economic risk by risk type, EUR '000	31 Dec. 2022	31 Dec. 2021
Credit risk	**334,366**	**359,669**
Counterparty risk	277,606	290,787
FX risk (customer perspective)	1,319	1,694
Investment risk	9,508	8,984
Concentration risk	32,637	18,789
Macroeconomic risk	12,069	38,412
Repayment vehicle risk	1,227	1,002
Market risk	**89,645**	**56,688**
Interest rate risk	58,762	21,519
Credit spread risk	29,818	33,605
Credit valuation adjustment risk	306	873
FX risk (Bank perspective)	110	41
Risk – small trading book	650	650
Liquidity risk	**8,700**	**6,700**
Operational risks	**25,482**	**24,456**
Risk buffer	**66,279**	**57,665**
Model risk	22,910	22,376
Reputational risk	9,164	8,950
Other non-quantified risks	34,205	26,339
Total	**524,473**	**505,178**

Allocated to RBC, EUR '000	31 Dec. 2022	31 Dec. 2021
Economic Tier 1 capital	772,298	729,127
Undisclosed reserves/liabilities	-18,326	26,184
Economic risk-bearing capacity (RBC)	**753,973**	**755,311**
Utilisation of economic RBC	**70%**	**67%**

As at 31 December 2022 the Group was utilising 69.6% of its risk-bearing capacity (including an adequate risk buffer), which was higher than at 31 December 2021 (66.9%).

8.2.1 Management of the internal risk coverage capital

As part of the aggregated banking risk management system, own funds are calculated at the consolidated Group level as defined by the CRR. The own funds figures from the Common Reporting Framework (COREP) are thus converted into economic risk-bearing capacity. Undisclosed economic reserves and liabilities arising from securities are also included in the risk coverage capital. Changes are driven both by the volatility of the undisclosed reserves and liabilities, and by the resolutions of the Annual General Meeting with respect to dividend distributions, allocations to reserves and any capital increases.

The main components of the HYPO NOE Group's economic risk-bearing capacity are as follows:

- Tier 1 capital, and
- Undisclosed reserves/liabilities arising from securities (AC)

The following components are currently NOT included in the Group's economic coverage capital:

- Subordinated and Tier 2 capital (except for certain predefined stress situations)
- Interim profits and losses for the current financial year

The exclusion of subordinated and Tier 2 capital from the 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.

In accordance with the going concern control loop, meeting the own funds requirements is also a strict condition for ensuring that the Bank remains a going concern.

8.2.2 Recovery plan

Under the *Bundesgesetz über die Sanierung und Abwicklung von Banken* (Federal Act on the Recovery and Resolution of Banks), which came into force on 1 January 2015, the HYPO NOE Group is required to draw up a recovery plan. The embedding of the plan in day-to-day operations pursuant to the Act is integral to the Group's risk and capital management framework.

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

Early warning and recovery indicators are an integral part of the reporting within the relevant management bodies.

The 2022 review of the Group's recovery plan under the Federal Act on the Recovery and Resolution of Banks was completed in accordance with the regulatory requirements and the approved document submitted to the regulator on schedule.

8.2.3 Bank-wide stress test

As part of the internal Bank-wide stress testing process, a detailed economic study compiled every year provides the basis for the annual analysis of scenarios relevant to the HYPO NOE Group's business model. The impact of the scenarios on credit, investment and liquidity risk, net interest income and credit spreads, as well as on the recognition of additional risk provisions pursuant to IFRS 9 and expected defaults, are simulated at Group level to determine both regulatory and economic risk-bearing capacity. The results of the stress test and potential countermeasures are reported to the Management Board and presented to the Risk Management Committee (RICO) and Risk Committee.

In addition, reverse stress tests are carried out annually, and stress tests may also be held on a case-by-case basis.

8.2.4 Basel III/IV

In the first six months of 2022, activities focused on preparing the disclosures required under Part 8 of the CRR in conjunction with Commission Implementing Regulation (EU) 2021/637; the disclosures were revised in full and published in the middle of June 2022. In addition, an initial analysis of the implications for credit risk and operational risk arising from the EU Commission's proposed amendments to Regulation (EU) No 575/2013 (known as CRR III) was carried out, the results of which fed into the medium-term plan drawn up in autumn 2022. A number of compromise papers on CRR III were published during the year; deviations from the Commission's proposal were examined and evaluated in each case. Completion of trilogue negotiations between the Commission, the European Council and the European Parliament, and a final version of CRR III, are not expected until the first half of 2023. Therefore, the results of the analysis remain subject to uncertainty.

Implementation of the revised requirements of CRR III forms a major part of the Group’s Integrated Finance and Risk Architecture (IFRA) programme, which was initiated in 2022, and related work began in autumn 2022 in collaboration with current and new IT partners.

8.2.5 Upgrading risk management systems

In 2023 the HYPO NOE Group will again refine its infrastructure, processes and methodologies, in order to meet current and future regulatory requirements, and to ensure that internal risk control systems remain compatible with the Group’s permitted risk tolerance and its business objectives.

8.2.6 Minimum requirement for own funds and eligible liabilities (MREL)

At present, the HYPO NOE Group must comply with the following mandatory minimum requirements for MREL:

- 5.90% of leverage ratio exposure (31 Dec. 2021: 5.90%), or
- 20.92% of total risk exposure (31 Dec. 2021: 20.92%)

As the minimum ratios in accordance with the most recent notice are higher than the previously prescribed minimum ratios, the latter had to be complied with at 31 December 2022.

The Group makes use of a general prior permission (GPP) in order to reduce the level of instruments for eligible liabilities by up to 10%. The officially approved GPP for the year under review was EUR 288m.Renewal of the GPP at the same level for 2023 was applied for and approved by the regulator. The HYPO NOE Group is therefore entitled, without further approval from the regulator, to make repurchases of eligible liabilities amounting to approximately EUR 288m.

As a result, this pre-approved amount for repurchases of eligible liabilities can no longer be included in the MREL calculations as outstanding liabilities. The Group continues to comfortably meet the minimum requirements established by the regulator, as there are sufficient eligible liabilities and own funds.

8.3 Credit risk

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

8.4 Market risk

8.4.1 Market risk management

Market risks are potential losses resulting from adverse changes in the net asset value of exposures due to changes in market prices.

Market risks specific to banking include:

- Interest rate risk in the banking book
- Credit spread risk
- Foreign exchange risk from a banking perspective
- Option risk (volatility risk)
- Trading book risk
- Basis risk
- Credit valuation adjustment (CVA) risk
- Concentration risk inherent in market risk
- Commodity price risk

- Share price risk
- Fund price risk
- Sustainability risk

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

The main market risks facing the HYPO NOE Group are interest rate risk in the banking book, and credit spread risk (in particular in the nostro portfolio) arising in part from ordinary banking activities such as fixed-interest lending and management of liquidity reserves. The HYPO NOE Group has implemented detailed oversight and control processes to address these risks. In the course of its business operations, the HYPO NOE Group is exposed to foreign exchange and option risks (e.g. embedded upper and lower interest rate limits) which are monitored and managed. The use of derivatives to hedge interest rate risk can give rise to basis risk, which is likewise closely watched. Risk management procedures and methods are also in place to deal with the CVA risk associated with derivatives. The concentration risk inherent in market risk chiefly arises from own investments made to control the liquidity reserve, and is managed and limited together with the latter. The Bank also uses the small trading book to trade on its own account. Appropriate and transparent limits that reflect risk appetite and monitoring processes have been introduced in order to ensure compliance with legal requirements and internal risk management policies.

The HYPO NOE Group has not earmarked any internal risk capital for commodity, share price or fund risk, and consequently no material risks may be incurred in these market risk categories. Sustainability risk is limited and managed by applying inclusion and exclusion criteria, among other measures.

The HYPO NOE Group's market risk strategy is based on the principles set out below, which are enshrined in the Group's risk strategy. These principles guarantee capital coverage of the market risks incurred at all times, and underpin the related monitoring, control and transparency of the individual market risk positions as follows:

- Identifying and regularly evaluating market risks
- Specifying and regularly reviewing the suitability of models and processes for measuring market risks
- Quantifying market risk on the basis of the processes established
- Determining Management's risk appetite and tolerance with respect to the various individual market risk categories, taking account of risk and reward expectations
- Identifying and complying with legislative and regulatory frameworks
- Appropriately limiting and monitoring market risk on the basis of the specified risk tolerance
- Goal-driven reporting

8.4.2 Interest rate risk in the banking book

When measuring, managing and restricting interest rate risk, the HYPO NOE Group distinguishes between period net interest income risk – which mainly tracks the risk of net interest income fluctuations in a given period – and present value risk, which measures decreases in the asset value of a particular portfolio due to interest-rate-induced changes in present value.

A major objective for the HYPO NOE Group is monitoring and managing the interest rate risk arising from aggregate net interest income at Bank level and sub-portfolios relevant to IFRS earnings and equity, which are prime indicators of performance in the accounts for a given period. At the same time, the present value of interest rate risk across the entire banking book is managed to ensure conformity with the Bank's total risk-bearing capacity and supervisory requirements (OeNB interest rate risk statistics and identifier for an outlier bank).

Interest rate risk management

Monitoring and quantifying interest rate risk is the responsibility of an independent back office department, Strategic Risk Management. This scrutiny includes watching interest rate gaps, calculating present values and performing sensitivity analyses. Positions with interest rates fixed for indefinite periods and associated assumptions on prepayments are modelled and regularly assessed on the basis of statistical models and/or expert estimates. Regular analyses are also carried out for the entire banking book and for sub-portfolios.

Management of interest rate risk positions and implementation of the Bank's interest rate risk management strategy are the responsibility of the ALM team. The main objective is to achieve stable, long-term contributions to net interest income, while also managing the present value of interest rate risk in terms of its impact on earnings.

The Bank's interest rate risk policy is planned as part of the annual budget and medium-term planning and calibrated to the Bank's risk appetite. Adherence to the strategic interest rate risk position is reported in the ALM Committee and, if necessary, adjusted in consultation with the Management Board. The ALM Team is responsible for operational implementation of the interest rate risk management strategy within the defined interest rate risk limits and authorities,

and coordinates regularly with Strategic Risk Management on decisions that have a bearing on interest rate risk. Interest rate risk management measures are ultimately executed by the Treasury/Capital Market/FI/IR Department.

The HYPO NOE Group makes use of fair value hedges that qualify for hedge accounting in order to guard against interest rate risk arising from structured positions and significant fixed-interest positions. Low-value transactions are combined and hedged by means of layered hedges (see Note 4.6 Derivatives and hedge accounting). Interest rate swaps may be used as risk management instruments. Alternatively, the Bank uses new investment and refinancing business as a means of managing structured fixed-interest risk positions.

Banking book

The present value of interest rate risk across the banking book as a whole is subject to an absolute limit for the purposes of internal risk measurement. This is set during the annual risk budgeting process, on the basis of the Bank's total risk-bearing capacity and risk appetite, and in accordance with the limits established by the OeNB interest rate risk statistics and the provisions for identifying outlier banks.

The present value of interest rate risk for all interest-sensitive positions (i.e. excluding non-interest-bearing equity and interest-free investments) is measured for the banking book as a whole, and is limited, monitored and kept to the preordained limits. The basis of the measurement is the effect of a range of interest rate scenarios and shifts on the net asset value.

Risk measurement as required by the OeNB interest rate risk statistics is carried out in accordance with the regulatory requirements.

Internal interest rate risk is assessed on the basis of gap analyses and interest rate sensitivities. The worst-case change in present value is calculated for the entire banking book, on the basis of the six EBA scenarios, with the four scenarios subject to the EBA interest rate floor also included without the floor. These ten scenarios are scaled up to a confidence level of 99.9% for the liquidation approach and to 95% for the going concern approach, with a holding period of one year. Parallel shifts and twists in the yield curve (on money and capital markets) are also modelled in the interest rate scenarios. When aggregating the interest rate risks associated with the various currencies, negative present value changes are weighted at 100% and positive present value changes at 50%.

The risk of fluctuations in net interest income is measured by repricing risk. Repricing risk measures movements in net interest income arising from differences in variable reference rates or differences in rate fixing dates where the reference rates are the same. Repricing risk is individually determined for a 12-month period for each currency, scenario, indicator and product. As with internal interest rate risk, the calculation is based on the six EBA scenarios, and the four EBA scenarios without interest rate floors, and a constant balance sheet structure is assumed. It is assumed that new transactions will be concluded to replace expiring positions for the same indicator. For fixed-interest positions, it is assumed that new transactions are concluded at the six-month Euribor rate, as decisions on new fixed-interest positions are taken by ALM on the basis of the market situation and expectations, and not of expiring fixed-interest positions.

Individual portfolios

As is the case for the banking book as a whole, limits are set and monitored in the control system for interest-sensitive portfolios for which measurement effects are recognised in the IFRS statement of profit or loss or in IFRS equity. Risk assessment and limit setting are based on present value sensitivities derived from the six EBA scenarios without an interest rate floor, scaled up to a confidence level of 95%.

Current interest risk situation: total banking book

The OeNB statistics show interest rate risk remaining low relative to the regulatory limits (20% of eligible capital). The following table shows the results of the OeNB regulatory interest rate risk statistics and the performance indicator identifying an outlier bank as at 31 December 2022 and 31 December 2021. The indicators are based on equity including retained profit.

OeNB regulatory interest rate risk statistics	31 Dec. 2022	31 Dec. 2021
OeNB interest rate risk statistics	6.66%	4.61%
Supervisory outlier test	6.91%	2.68%

The tables below present the interest rate risk positions taken by the HYPO NOE Group as at 31 December 2022 and 31 December 2021.

Interest rate risk positions (assets – liabilities), 31 Dec. 2022, EUR ’000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	-251,043	-399,246	-650,288
>1-3 months	1,043,125	-404,867	638,258
>3-6 months	2,361,130	-2,379,948	-18,817
>6 months-1 year	207,580	675,470	883,050
>1 year-2 years	-488,330	387,474	-100,857
>2-3 years	-1,023,129	984,045	-39,084
>3-4 years	-611,037	310,887	-300,150
>4-5 years	-184,844	160,213	-24,632
>5-7 years	-806,248	674,678	-131,569
>7-10 years	-256,929	390,127	133,198
>10-15 years	428,299	-239,540	188,759
>15-20 years	304,981	-195,691	109,290
Over 20 years	76,297	-72,908	3,388

Interest rate risk positions (assets – liabilities), 31 Dec. 2021, EUR ’000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	1,859,402	-584,646	1,274,756
>1-3 months	-1,134,659	108,250	-1,026,409
>3-6 months	2,422,130	-2,471,444	-49,314
>6 months-1 year	308,827	210,082	518,908
>1 year-2 years	-1,057,540	1,221,025	163,485
>2-3 years	-500,996	453,588	-47,409
>3-4 years	-453,753	395,987	-57,767
>4-5 years	-663,909	343,160	-320,750
>5-7 years	-631,058	270,883	-360,174
>7-10 years	23,968	228,567	252,534
>10-15 years	220,970	-70,059	150,911
>15-20 years	336,606	-229,540	107,066
Over 20 years	39,254	-10,069	29,185

As at 31 December 2022, risk utilisation was 90% of the total limit of EUR 65m (31 Dec. 2021: 39% of the total limit of EUR 55m). The tables below show the results of various interest rate scenarios for the HYPO NOE Group, and how they are reflected in the internal limits, as at 31 December 2022 and 31 December 2021. For the internal risk measurement process, the six EBA scenarios with an interest rate floor and the four without a floor are applied and scaled up to a confidence level of 99.9%.

Internal interest rate scenario analysis, total banking book, 31 Dec. 2022, EUR '000	Change in present value	Scaled up to 99.9%
Scenario I: EBA parallel up	-53,423	-58,765
Scenario II: EBA parallel down	36,735	40,408
Scenario III: EBA steepener	-19,585	-21,544
Scenario IV: EBA flattener	6,203	6,823
Scenario V: EBA short rate up	-5,576	-6,133
Scenario VI: EBA short rate down	3,063	3,369
Scenario VII: EBA parallel down without interest rate floor	36,735	40,408
Scenario VIII: EBA steepener without interest rate floor	-12,998	-14,298
Scenario IX: EBA flattener without interest rate floor	6,705	7,375
Scenario X: EBA short rate down without interest rate floor	-1,628	-1,791
Internal risk	-53,423	-58,765
Warning level (95% of limit)	**61,750**	
Limit/utilisation (%)	**65,000**	**-90.41%**

Internal interest rate scenario analysis, total banking book, 31 Dec. 2021, EUR '000	Change in present value	Scaled up to 99.9%
Scenario I: EBA parallel up	-13,955	-15,351
Scenario II: EBA parallel down	12,497	13,747
Scenario III: EBA steepener	-19,562	-21,519
Scenario IV: EBA flattener	14,739	16,213
Scenario V: EBA short rate up	6,710	7,381
Scenario VI: EBA short rate down	-4,052	-4,457
Scenario VII: EBA parallel down without interest rate floor	63,450	69,795
Scenario VIII: EBA steepener without interest rate floor	19,775	21,753
Scenario IX: EBA flattener without interest rate floor	17,706	19,477
Scenario X: EBA short rate down without interest rate floor	1,831	2,014
Internal risk	-19,562	-21,519
Warning level (95% of limit)	**-52,250**	
Limit/utilisation (%)	**-55,000**	**39.12%**

8.4.3 Credit spread risk

Credit spread risk is the impact of adverse changes in risk premiums on securities, and of the related loss of net asset value. This type of risk plays a particularly important role in connection with the Group's own investments. The capital requirements resulting from credit spread risk are determined using a historical value-at-risk (VaR) model for the entire nostro portfolio in the banking book, and for the securities portfolio in the small trading book. VaR is calculated on the basis of historical credit spread scenarios, which are estimated with the aid of IBoxx indices. The changes arrived at in this way are then aggregated, and this distribution of losses is used to calculate a loss quantile of 99.9% and 95%. The historical simulation methodology uses a five-year rolling time window. This indicator measures the potential loss in value from widening spreads that would be realised, from a liquidation perspective, if the entire securities portfolio were disposed of. The table below shows the results of the credit spread VaR analysis for the HYPO NOE Group, assuming a holding period of one year and a confidence level of 99.9%.

Credit spread, VaR (holding period of one year, confidence level of 99.9%), EUR ’000	**31 Dec. 2022**	**31 Dec. 2021**
Nostro portfolio, total	-29,818	-33,605

There were no significant changes in the methods used to measure and monitor credit spread risk during the reporting period.

8.4.4 Foreign exchange risk

The strict limits on open foreign exchange positions reflect the HYPO NOE Group’s conservative risk policies. Refinancing in the same currency and the use of FX derivatives serves to effectively eliminate foreign exchange risks for the Group. Consequently, under the Capital Requirements Regulation, as at 31 December 2022 the Group was not subject to the minimum capital requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign exchange positions is below this figure.

The residual foreign exchange risk for all open currency positions is regularly measured and monitored, using a VaR model based on foreign currency fluctuations over time. Using a variance/covariance approach, correlations between the various currencies are also considered in the calculations. More recent developments in the time series are weighted more heavily than those further back in the past, with a decay factor of 0.94. The table below shows the results of the currency-position VaR analysis for the HYPO NOE Group, 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. 2022**	**31 Dec. 2021**
Currency risk exposure, total	-110	-41

There were no significant changes in the methods used to measure and monitor foreign exchange risk during the reporting period.

8.4.5 Options risk

Volatility risks in the HYPO NOE Group chiefly arise from upper and lower interest rate limits on loans and deposits. The management and oversight of these exposures forms part of management of interest rate risk in the banking book.

The Bank normally aims to prohibit any option positions with a significant bearing on IFRS fair value. Option derivatives are only employed to a very limited extent, to manage interest rate risk and to optimise the mismatch contribution. Limits are imposed by implementing fair value interest rate risk limits.

8.4.6 Trading book risk

The Group does not engage in any business that requires it to maintain a large trading book as defined by the CRR. It maintains a small trading book in accordance with Article 94 CRR, and the volume of business is accordingly limited, in line with that Article. In addition, sensitivity limits and a maximum loss limit have been set (31 Dec. 2022: EUR 650thsd; 31 Dec. 2021: EUR 650thsd), including an early warning indicator (31 Dec. 2022: EUR 300thsd; 31 Dec. 2021: EUR 300thsd) that halves the sensitivity limit when it is triggered. Daily observation is performed by the Strategic Risk Management Department. No positions were taken up in the small trading book in 2021.

8.4.7 Basis risk

Information on basis risks can be found in Note 4.6 Derivatives and hedge accounting.

8.4.8 CVA/DVA risk

When calculating the fair value of derivative instruments, the CVA for counterparty risk and the debt valuation adjustment (DVA) for the Bank’s own credit risk must be taken into account. The CVA is calculated using customary methods:

expected exposure is taken into account by means of a Monte Carlo simulation, and the probability of default feeds into the calculation by applying appropriate global CDS curves. CDS curves are assigned to the respective instruments on the basis of the customer rating and sector. The effects of the CVA and DVA are recognised in the consolidated statement of comprehensive income.

CVA risk relates to decreases in present value as a result of fluctuations in the CVAs for OTC derivatives with CVA adjustments, which can in turn lead to fluctuations in the "Net measurement gains or losses" item in the statement of profit or loss. CVA risk is measured and monitored on a monthly basis. As part of the Bank-wide economic banking risk observation, swings in the CVAs of relevant positions over time are measured and included as risks in the calculation of risk-bearing capacity. The daily movements in global CDS curves are the basis for measuring these fluctuations. Risk measurement uses a historic value-at-risk approach, with a holding period of one year and a monitored time series of five years. All derivatives without collateral agreements are included in measurement. The HYPO NOE Group mainly concludes derivative contracts via central clearing houses or collateralises them by means of a credit support annex (CSA) in order to reduce credit risk and CVA volatility risk.

8.4.9 On-balance-sheet market risk: sensitivity analysis

Estimation uncertainties and judgements

The risk measurement methods used meet the legal and economic requirements, and are also internally validated. All risk measurement methods have their limits, and higher losses than those shown by the risk measurements cannot be ruled out. The amounts shown are not forecasts or indications of how these amounts may behave in the future. The main limitations of the methods used are discussed below.

The following factors need to be borne in mind when employing sensitivity analyses like those used to determine risk:

- The scenarios may not be good indicators of future events, especially where they represent extremely positive or extremely negative situations. In such cases, the scenarios could lead to risks being underestimated or overstated.
- 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 market developments occur. There is no standard methodology for devising interest rate scenarios, and applying other scenarios would generate different results.
- The scenarios applied do not provide any indications of the potential losses in situations not modelled by them.

In the case of the value-at-risk techniques applied, the following drawbacks of the methodology are among those that should be borne in mind:

- The value at risk stated for a given confidence level does not provide any information about the potential loss beyond the assumed confidence level.
- The model used takes account of historical data within the stated five-year time series. The choice of a different period would alter the results.
- The correlations derived from the time series and the risk distribution may change in future.

Besides the risk determination methods described, stress tests are performed in order to reveal risks present beyond the regular risk measurement schedule.

Market risk sensitivities in respect of comprehensive income and of equity are presented below. All sensitivities are presented using a VaR approach (95% confidence level, holding period of one year) as described above for the various types of risk. Repricing risk shows the impact on net interest income.

IFRS fair value sensitivities, 31 Dec. 2022, EUR ’000	Profit/loss sensitivities			OCI sensitivities		
	VaR	Limit	Utilisation	VaR	Limit	Utilisation
Present value interest rate risk	-901	4,000	23%	-669	3,500	19%
Credit spread risk	-2,110	7,000	30%	-2,728	4,000	68%
CVA risk	-217					
FX basis risk	-1,129	3,000	38%		5,000	
Banking book risk	-4,356			-3,396		
Trading book interest rate risk	-					

IFRS fair value sensitivities, 31 Dec. 2021, EUR ’000	Profit/loss sensitivities			OCI sensitivities		
	VaR	Limit	Utilisation	VaR	Limit	Utilisation
Present value interest rate risk	-1,126	4,000	28%	-1,025	4,000	26%
Credit spread risk	-3,406	7,000	49%	-2,581	7,000	37%
CVA risk	-388					
FX basis risk	-1,038	3,000	35%		5,000	
Banking book risk	-5,958			-3,607		
Trading book interest rate risk	-					

Interest income sensitivities, EUR ’000	31 Dec. 2022	31 Dec. 2021
Scenario I: EBA parallel up	6,443	8,132
Scenario II: EBA parallel down	-12,689	3,301
Scenario III: EBA steepener	-5,262	4,002
Scenario IV: EBA flattener	4,197	4,563
Scenario V: EBA short rate up	5,927	8,197
Scenario VI: EBA short rate down	-13,131	3,506
Scenario VII: EBA parallel down without interest rate floor	-12,678	19,400
Scenario VIII: EBA steepener without interest rate floor	-3,070	13,929
Scenario IX: EBA flattener without interest rate floor	2,240	2,709
Scenario X: EBA short rate down without interest rate floor	-14,635	22,516
Worst case scenario	-14,635	2,709

8.5 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 structural refinancing and liquidity risk strategy.

The table below shows a maturity analysis of the Group’s financial liabilities, including existing financial guarantees extended for derivative financial liabilities and outstanding irrevocable loan commitments as at 31 December 2022 and 31 December 2021. The presentation is based on the following assumptions:

- 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 assigned to the earliest maturity band
- Finance lease obligations are included at the expected payment dates
- Outstanding irrevocable loan commitments are included at the earliest possible drawing date

- 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
- Gross values are shown for repayments of obligations arising from foreign exchange derivatives and forwards
- In the interests of consistency, the liabilities are presented in accordance with the IFRS balance sheet format; the key items from a liquidity perspective are also listed by internal categories.

Financial liabilities: maturity analysis, 31 December 2020, EUR '000

Liabilities by Note and internal liquidity category		0-1M	1-3M	3-12M	1-5Y
Financial liabilities – HFT	**4.4**	**62,431**	**21,849**	**245,310**	**690,660**
Derivative liabilities		62,431	21,849	245,310	690,660
Financial liabilities – AC	**4.4**	**2,810,749**	**271,114**	**2,403,376**	**6,139,213**
OeNB tenders/GC Pooling repos		-	100,000	649,000	185,000
Deposits from financial institutions		3,564	7,902	67,384	51,513
Liabilities arising from collateral received for derivatives		61,500	-	-	-
Customer deposits		2,721,912	94,829	321,154	17,388
Liabilities to development banks and multilateral development banks		5,554	502	35,557	211,334
Unsecured own issues		4,644	43,085	754,760	2,372,653
Secured own issues		13,576	24,796	575,521	3,301,325
Financial liabilities – FVO	**4.4**	**-**	**-**	**-**	**-**
Contingent liabilities		**1,463**	**-**	**-**	**-**
Financial guarantees		59	-	-	-
Loan commitments		1,404	-	-	-
Other positions affecting liquidity		**13,553**	**24,000**	**88,717**	**195,000**
Finance lease obligations		13,553	24,000	88,717	195,000

Financial liabilities: maturity analysis, 31 December 2021, EUR ’000

Liabilities by Note and internal liquidity category		0-1M	1-3M	3-12M	1-5Y
Financial liabilities – HFT	**4.4**	**80,523**	**103,098**	**-**	**561,612**
Derivative liabilities		80,523	103,098	-	561,612
Financial liabilities – AC	**4.4**	**2,940,906**	**311,567**	**1,402,818**	**7,649,190**
OeNB tenders/GC Pooling repos		-	-	50,000	1,984,000
Deposits from financial institutions		19,527	25,296	86,287	48,872
Liabilities arising from collateral received for derivatives		42,355	-	-	-
Customer deposits		2,846,944	98,104	515,351	142,201
Liabilities to development banks and multilateral development banks		3,761	721	10,324	156,690
Unsecured own issues		4,334	134,452	153,564	2,510,357
Secured own issues		23,986	52,993	587,292	2,807,070
Financial liabilities – FVO	**4.4**	**-**	**-**	**-**	**-**
Contingent liabilities		**1,713,739**	**-**	**-**	**-**
Financial guarantees		70,213	-	-	-
Loan commitments		1,643,526	-	-	-
Other positions affecting liquidity		**8,000**	**35,000**	**103,500**	**180,000**
Finance lease obligations		8,000	35,000	103,500	180,000

The majority of derivative liabilities are collateralised with cash, or arise due to the inclusion of gross values for foreign exchange derivatives or forwards. As a result, actual net liquidity outflows are lower than those shown in the maturity analysis. In connection with derivatives being cleared or with CSAs, the general risk of remargining is taken into account in the calculation of the time to wall, which is considered 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 years to 31 December 2022 and to 31 December 2021 is shown in the table below.

Worst-case liquidity outflow, EUR ’000	31 Dec. 2022	31 Dec. 2021
	315,101	184,441

Irrevocable loan commitments include unused credit lines and loan facilities, as well as revolving credit lines, such as overdraft facilities and cash advances, where there is a strong likelihood that the unutilised loans will be drawn on within the contractually agreed period. By contrast, credit lines can be used at any time, implying a higher degree of uncertainty with regard to utilisation and the maturity date. Public sector customers with which the Bank has close relationships account for a significant proportion of the unused credit lines. Planned use by the customer is regularly coordinated with the front office units concerned. This in turn facilitates forward planning of the Bank’s refinancing requirements.

The Group’s main sources of finance are secured and unsecured issues, as well as deposits from retail, SME and institutional customers. OeNB tenders and GC Pooling repos are primarily used to manage liquidity.

The concentration of deposits from individual retail customers is usually low in volume terms, so the Bank faces no significant concentration risk in this segment. By contrast, customer concentrations are possible in the case of institutional customers, some of which are in a position to make large investments. The Bank normally seeks to include different and longer-term maturity bands in the mix by offering appropriate products. In liquidity risk management, the risk that institutional customer deposits will not be extended on maturity is taken into account in the internal operational liquidity stress tests used to determine time to wall on a scenario basis in the light of experience of past crises.

The ten largest fixed-term deposits made by institutional customers were as follows:

EUR ’000	31 Dec. 2022	31 Dec. 2021
1	99,974	115,000
2	65,000	90,000
3	55,000	50,000
4	28,000	49,450
5	22,500	41,000
6	15,000	35,000
7	12,450	30,000
8	10,000	26,000
9	10,000	25,000
10	9,500	19,025

The HYPO NOE Group seeks to achieve a balanced refinancing mix. Collateralised and uncollateralised bond issues are currently an integral component of the refinancing structure, and will remain so in future. Unlike the other deposit-taking business, issuance allows the Bank to access long-term refinancing and offset the maturity transformation risk that results from long-term lending. Care is taken to avoid concentrations in the maturity profile of issued debt.

The secured capital market accounts for a substantial portion of the Group’s total refinancing, and will continue to do so in future. It exhibits a high degree of stability in times of crisis. Another major advantage is the fact that the free collateral in the cover pools can be converted into assets eligible as collateral for OeNB tenders and so used to provide liquidity in a crisis.

Fixed-term interbank deposits are another, albeit less important source of refinancing. The table below shows the four largest deposits.

EUR ’000	31 Dec. 2022	31 Dec. 2021
1	25,000	35,002
2	24,971	25,000
3	8,000	20,000
4	5,000	15,000
5	-	10,000
6	-	5,000
7	-	2,000

The HYPO NOE Group’s primary instruments for managing and covering short-term maturities are its available liquidity reserve, cash reserves and overnight investments. The Group draws a distinction between high-quality, highly 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. As a result of participation in the European Central Bank’s TLTRO III programme, a large part of the liquidity reserve was converted into demand deposits at the OeNB, as can be seen in the table below as at 31 December 2021. Due to partial early repayment, the balance of demand deposits at the OeNB was lower at year-end 2022, and these amounts were recognised under the listed collaterals. The available liquidity reserve was broken down as follows.

Available liquidity reserve, 31 Dec. 2022, EUR m	T0	1M	3M	12M
HQLA	1,025	1,025	1,020	936
Other collateral eligible for ECB tenders or GC Pooling repos	1,597	1,540	1,502	2,333
Other liquidity reserves	166	-	-	-

Available liquidity reserve, 31 Dec. 2021, EUR m	T0	1M	3M	12M
HQLA	347	335	323	304
Other collateral eligible for ECB tenders or GC Pooling repos	1,154	1,110	1,121	1,234
Cash at central bank	1,355	-	-	-

The analysis of the available liquidity reserve does not include collateral already utilised as at the end of the reporting period. This means that once the liabilities secured with such collateral 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 and GC Pooling repoable collateral. In this respect, new investments are primarily made in Level 1 HQLA from the euro area.

If the refinancing options are not sufficient to cover financial liabilities, the Bank's existing emergency processes and measures are triggered. The Bank's internal liquidity risk management processes require the latter's activation well before the actual occurrence of a situation that could pose a threat to its survival.

Details of the individual components of the Group's comprehensive liquidity risk management framework and their interaction are described below. The framework takes account of all of the mainstays of liquidity risk management. These include: preparing and implementing a refinancing and risk strategy adapted to the business model and risk appetite; employing and regularly reviewing suitable methods and processes to determine, measure, oversee and control liquidity risk; and ensuring that effective escalation processes and contingency plans are in place.

8.5.1 Strategic liquidity risk management targets

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

This gives rise to the following fundamental objectives of the Group's liquidity risk management:

- Maintenance of a sufficient liquidity buffer, based on suitable stress tests and limit systems, to maintain solvency at all times
- Optimisation of the refinancing structure with respect to risk tolerance, maturity transformation and costs
- Comprehensive planning of the medium-to-long-term refinancing strategy
- Coordination of issuance activity on the money and capital markets
- Risk and cost-reflective pricing
- Compliance with statutory regulations and legal frameworks

These underlying objectives form the basis for the following liquidity risk management principles, which are applied in liquidity management operations:

- The identification and regular assessment of liquidity risks
- The selection of, and regular review of the suitability of models and processes for measuring identified liquidity risks
- Quantification of liquidity risk on the basis of the established processes
- Identifying and complying with legislative and regulatory frameworks
- Determining Management's risk appetite/tolerance
- Maintenance of an appropriate liquidity buffer at all times
- Reasonable limitation and monitoring of liquidity risk on the basis of the specified risk tolerance
- Goal-driven reporting
- Existence of emergency plans and processes, and regular reviews to ensure that they are up to date and

appropriate
- Efficient and timely management of operational liquidity
- Approval and monitoring of the implementation of the medium-to-long-term refinancing strategy
- Employment of processes and procedures designed to ensure the risk-reflective allocation of liquidity costs

8.5.2 Implementation of liquidity risk management

Day-to-day liquidity requirements are monitored and managed on the basis of daily reports prepared by the Strategic Risk Management Department.

The department compiles extensive monthly liquidity risk reports to assist in the analysis and control of operational and structural liquidity, and monitoring of compliance with the liquidity risk limits. These reports describe and analyse operational liquidity risk over a period of 12 months according to a normal scenario (volatility scenario), as well as three stress scenarios (name crisis, market crisis and combined crisis), and the structural liquidity risk inherent in the normal scenario. In addition, the Management Board receives comprehensive monthly progress reports on the liquidity position, incorporating planning assumptions and key liquidity risk indicators, as well as information on the current liquidity situation. The Board also 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- and off-balance-sheet items (including contingent liabilities) affecting liquidity are taken into account. With regard to business that affects liquidity, the presentation of the liquidity cash flows distinguishes between a deterministic and a stochastic approach. For the positions given stochastic treatment, fictional maturity scenarios drawn from statistical models, benchmarks and/or expert valuations for given scenarios are extrapolated in order to arrive at the expected capital commitment.

In addition to existing business, assumptions about expected new business and prolongations are made for each scenario. Prolongations represent the extension of due positions arising from 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 that the Bank would be able to survive (“time to wall”). The net cash outflows in the normal scenario and the three stress scenarios are compared with the relevant available liquidity reserve, and the point in time when the liquidity reserve will no longer be sufficient to cover the net cash outflows is calculated. The shortest “time to wall” is used to calculate 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 risk strategy have as yet been initiated in order to reduce illiquidity. The limit leaves room for standard escalation processes to be triggered as required to react quickly to potential liquidity shortages and initiate appropriate action in good time. The stress test horizon is one year. The basic assumptions behind the various stress scenarios are described briefly below:

- For the **bank name crisis** stress scenario, a deterioration in the HYPO NOE Group’s individual liquidity situation is simulated. Other market participants are not initially affected by the crisis, but react indirectly, for example by withdrawing their deposits from the Bank. At the same time, the Group’s refinancing options in the money and capital markets are severely constrained or non-existent.
- In the **market crisis** scenario, an overall deterioration in the liquidity of the money and capital markets is assumed, and access to money and capital market refinancing is taken to be generally restricted. 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 name crisis and, as the Group is owned by the State of Lower Austria, may be seen as entirely positive, given that customers have an increased need for security in a crisis.
- The **combined crisis** scenario 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 in such a crisis. The liquidity buffer shrinks as market prices fall, and customer deposits increasingly drain away – albeit less than in a name crisis, since other market participants are also affected.
- A normal scenario is also simulated. This depicts routine business developments, as well as customary fluctuations in deposits, and withdrawals attributable to contingent liabilities. It is therefore referred to as the volatility scenario.

With a limit of eight weeks (or 12 weeks in the case of an early warning), the HYPO NOE Group's time to wall as at 31 December 2022 was very robust at 43 weeks (31 Dec. 2021: over 52 weeks). Alongside time to wall, the regulatory liquidity coverage ratio (LCR) is an important operational liquidity control metric. The LCR is reported on a monthly basis and is integral to the Group's operational liquidity management and the planning processes. The LCR reported to the regulator was 163% as at 31 December 2022 (31 Dec. 2021: 202%). In 2022 the regulatory limit was 100%, and the internal limit 120%. There are also maturity-related volume limits designed to control unsecured bank money-market exposures. The 30-day limit of EUR 250m, 90-day limit of EUR 400m and up-to-one-year limit of EUR 500m were adhered to throughout the monitoring period in 2022. The liquidity position (LP) key indicator is employed to measure the Bank's liquidity reserve. This compares the minimum reserve of liquid collaterals, defined according to the Bank's risk appetite, with the current available liquid reserve. The LP is significantly above the internal limits defined in the budgetary planning process.

For structural liquidity risk, the period and cumulative liquidity gaps are presented in one-year maturity bands; here, the focus is mainly on contractual cash flows generated by existing business. Modelled cash flows only play a minor role, and new business and prolongations also play a part.

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 in the course of one year. To calculate the economic capital implied by liquidity risk, higher costs are applied, due to the potentially higher refinancing spreads over one year. On the basis of the historical funding costs of each major funding instrument, the maximum expected increase in refinancing costs over the period of one year is calculated and monitored with a given confidence level. The economic capital for a limit of EUR 15m was EUR 8.7m as at 31 December 2022 (31 Dec. 2021: EUR 6.7m for a limit of EUR 15m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn, and the net stable funding ratio (NSFR), a recovery indicator, is also applied. The NSFR was 112.54% at the end of the reporting period (31 Dec. 2021: 120.40%), which was significantly higher than the regulatory minimum ratio of 100%.

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

8.5.3 Liquidity contingency plan

The liquidity contingency plan is designed to maintain effective liquidity management even in a market crisis. The Group's plan defines the responsibilities in an emergency, the composition of the crisis management teams, the internal and external communication channels, and the action to be taken where necessary. In an emergency, a crisis management team takes control of liquidity management and decides on the measures to be taken on a case-by-case basis. The contingency plan comprises a package of measures useful in overcoming a liquidity crisis; these were identified, analysed in detail and documented in a multi-stage selection process. The feasibility and suitability of each of the emergency measures in a variety of basic types of stress scenario were evaluated, the quantitative and qualitative effects computed, and the individual steps in the implementation process determined.

8.5.4 Current liquidity risk situation

The HYPO NOE Group is in a strong position as regards its refinancing options. It draws its liquidity from conventional capital market transactions and deposits, as well as standard repo transactions and ECB tenders. Transactions with development banks are another source of refinancing.

In 2022 liquidity markets were affected by uncertainty due to the war in Ukraine, the continued impact of the Covid-19 pandemic, and the interest rate rises which began in the first half of the year.

Despite the uncertain market environment, the HYPO NOE Group completed all of its planned capital market issues, amounting to EUR 1,500m. All of these capital market transactions were significantly oversubscribed.

Following a sharp increase in current and savings account deposits from retail and institutional customers during the Covid-19 pandemic, the level of deposits was maintained in 2022.

The HYPO NOE Group continued to utilise the European Central Bank's TLTRO III programme, which was launched in response to the pandemic, during the reporting period. Parts of this funding were repaid early, at the end of November 2022.

During the reporting period, the regulatory indicators of liquidity risk were tracked in accordance with the published standards and reported to the Austrian regulator. Where applicable, the minimum regulatory requirements were observed. In future, compliance with the statutory regulations will be assured by their integration with the internal liquidity risk management arrangements and planning processes, as well as strict internal standards and operational control processes already in place. The HYPO NOE Group refines its liquidity risk management system on an ongoing basis, principally by incorporating the results of model and parameter validations, stress tests and emergency simulations.

During the year just ended, procedural and technical refinements were made to the liquidity risk reporting system, and the report preparation process was improved.

8.6 Operational risk

Operational risk is the danger of losses arising directly or indirectly from the inadequacy or failure of internal processes or systems, human error or external events. In each category of operational risk, legal risks can result in losses. This is because in every category the HYPO NOE Group can be exposed to claims or legal proceedings arising from alleged breaches of contractual, statutory or regulatory requirements. Information and communication technology (ICT) risk and reputational risk are closely related to operational risk. However, business risks do not form part of operational risk.

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

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

There is also an emphasis on continuously improving the effectiveness and efficiency of operational risk management processes. The operation and continuous improvement of an effective internal control system (ICS) is aimed at reducing the likelihood of operational risk events and minimising their impact. Risks are systematically identified and assessed, controls agreed and developed, and where necessary key processes adapted.

Current operational risk situation

During the reporting period, all operational risk events were recorded in a central database. Improvements are seen as crucial to controlling operational risk: they were consistently formulated and implemented when operational risk events and near-miss incidents occurred.

The early-warning and key risk indicators yielded satisfactory results. The Group responded to the increasing number of cases of payment fraud in connection with debit cards, but also via other channels (for example perpetrated using social engineering techniques), with detailed awareness-raising measures for customers and staff.

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

Risks in connection with new products and new outsourcing are routinely surveyed using a standard evaluation tool, which is built into the product launch and outsourcing processes.

Due to the Group’s ongoing digitalisation drive as well as the applicable regulatory requirements, ICT risk has become a major consideration. It is addressed by the Operations, Organisation & IT Department in cooperation with Strategic Risk

Management. Work is now almost complete on a specialised tool for the identification, assessment, mitigation and documentation of ICT risks. The emphasis is on the following three sources of risk: Accenture TiGital GmbH in its capacity as the developer and operator of the core banking system; HYPO NOE Landesbank, its employees and processes, and the IT systems and applications it develops and operates itself; and third parties to which ICT services are outsourced.

8.7 Reputational risk

The HYPO NOE Group attaches great importance to limiting and managing reputational risk, and it is therefore treated as a separate risk category. Great care is taken to avoid potential harm to the reputation of the HYPO NOE Group when taking business decisions, and a process for evaluating reputational risk is in place.

Reputational risk is the danger of direct or indirect damage to the Group's good name, and the opportunity costs that this would entail. Such damage can compromise the Group's standing and undermine the trust of its stakeholders, including customers, investors, employees, business partners and the community. It may arise from a failure to live up to these stakeholders' expectations.

In the Group's view, effective business processes, coupled with sound risk monitoring and management are the means of meeting those expectations. The Group's code of conduct outlines the common values and principles shared by its employees. The HYPO NOE Group also avoids business policies and transactions associated with particularly acute legal or tax risks, or with substantial environmental risks. The Group's lending is subject to clear ethical guidelines and business principles, which enable implementation of its comprehensive environmental and social sustainability approach. In this way, the Bank ensures that loans are only extended for purposes that are compatible with its philosophy and sustainability strategy. The ethics guidelines and business principles comprise exclusion criteria, while the principle of prudence is strictly applied to financing for environmentally and socially sensitive sectors. These guidelines and principles form the basis for initiating new business across the Group. These criteria are also explicitly referred to by the ESG and reputational risk questionnaire that forms part of loan applications.

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

8.8 Other risks

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

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

The Group identifies and monitors such potential risks, and uses equity to hedge them, responding to negative changes at an early stage.

8.9 Sustainability risks

In line with the recommendations of the FMA Guide for Handling Sustainability Risks, in drawing up its risk inventory HYPO NOE Landesbank has incorporated sustainability risks into the current main risk categories in its risk map as sub-categories (i.e. reporting the effect on existing types of risk). The risk manuals and strategies have been revised accordingly.

Sustainability risks are limited and managed when approving new lending, as well as by means of regular reviews, using inclusion and exclusion criteria and by defining environmentally and socially sensitive sectors for which the Bank has a greater duty of care. Since 1 July 2022, these measures have been backed up by an environment, social and governance (ESG) questionnaire for real estate and corporate customers, and by taking ESG indicators into account (corruption index and rule of law indicators) in the assessment of country ratings.

Other steps taken to monitor sustainability risks include the integration of climate-related risks into stress tests; evaluation of the lending portfolio with regard to allocation of loans to industries with poor ESG scores by means of an internal sector scoring model, and regular assessment of ethics guidelines and business principles.

At the HYPO NOE Group, ESG measures are integrated into operations as routine activities in individual departments. The Sustainability Committee takes overall responsibility for management of these topics.

HYPO NOE Landesbank assessed its loan and securities portfolio to determine which assets meet the definition of financing under the supercategories of the technical evaluation criteria, in accordance with the EU delegated regulation supplementing the Taxonomy Regulation ([EU] 2020/852), which determines the conditions under which an economic activity can be seen as making a significant contribution to climate protection and adaptation to climate change, without significantly harming any other environmental targets (see also section 9.7 Management of sustainability risks in the Group operational and financial review).

8.10 Risk buffer

To deal with unquantified risks which the risk inventory has determined should be given equity cover when the risk-bearing capacity is computed, the Group maintains a risk buffer which is calculated on the basis of the quantified risks. The risk buffer is treated as an exposure class forming part of the Bank's aggregate risk in the total risk-bearing capacity calculation, and is broken down into model risk, reputational risk and other non-quantified risks. The more sophisticated and accurate risk measurement processes are, and the smaller the share of the non-quantified risks they include, the smaller the capital buffer can be.

8.11 Latent legal risks

It is standard practice to recognise provisions for litigation in which the outcome or any potential losses can be reliably predicted. In such cases, provisions are recognised at a level deemed appropriate in the circumstances, and in accordance with the applicable accounting principles.

9 NOTES TO THE STATEMENT OF CASH FLOWS

Significant accounting policies

At the HYPO NOE Group, the cash flows reported in the consolidated statement of cash flows, in accordance with IAS 7, are presented using the indirect method. “Cash flows from investing activities” and “Cash flows from financing activities” are calculated using the direct method.

“Cash flows from **operating activities”** mainly relate to cash inflows and outflows from “Financial assets – AC”, “Financial assets – mandatorily FVTPL”, “Financial assets – FVOCI” and “Financial liabilities – AC”.

When reconciling cash flows with the “Profit for the year” before non-controlling interests, non-cash items are removed. These comprise depreciation and amortisation, impairment and write-ups of property, plant and equipment, intangible assets and investment property, and allocations to and reversals of provisions and risk provisions, as well as net measurement gains or losses on financial assets and liabilities.

The HYPO NOE Group’s interest income and interest expense are eliminated from “Profit for the year” by means of the “Adjustments for interest income and expense” item; the amounts for interest income and interest expense are replaced by the actual interest paid and received, which are recognised under “Cash flows from operating activities”.

“Cash flows from **investing activities**” largely concern cash inflows and outflows from additions to and disposals of property, plant and equipment, and investment property.

“Cash flows from **financing activities**” are made up of dividends paid to owners of the parent and repayments of lease liabilities, in accordance with paragraph 50a IFRS 16.

“**Cash and cash equivalents**” consists of cash on hand, demand deposits and balances at central banks repayable on demand. This item corresponds to “Cash and balances at central banks” in the statement of financial position.

The following table shows changes in liabilities arising from financing activities.

EUR ’000	1 Jan. 2022	Cash	Non-cash	31 Dec. 2022
Lease liabilities	1,227	-324	189	1,092
Liabilities from financing activities	**1,227**	**-324**	**189**	**1,092**

EUR ’000	1 Jan. 2021	Cash	Non-cash	31 Dec. 2021
Lease liabilities	1,824	-925	328	1,227
Liabilities from financing activities	**1,824**	**-925**	**328**	**1,227**

10 GROUP STRUCTURE AND RELATED-PARTY RELATIONSHIPS

10.1 Scope of consolidation

The scope of consolidation of the HYPO NOE Group includes all subsidiaries that are directly or indirectly controlled by the parent and are material to presentation of the Group's assets, finances and earnings. The scope of consolidation is regularly reviewed. Besides the parent, HYPO NOE Landesbank für Niederösterreich und Wien AG, the Group comprises 53 Austrian subsidiaries (31 Dec. 2021: 55) in which the parent meets the criteria for control as specified by IFRS 10. A total of 14 companies are accounted for using the equity method (31 Dec. 2021: 12).

Significant accounting policies

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

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

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

Changes in the scope of

Company name	Included in consolidation as at 31 Dec. 2022	Included in consolidation as at 31 Dec. 2021	Date of change	Reason
VIVITLiving GmbH	Equity method	n/a	4 Apr. 2022	Formation
Telos Mobilien-Leasinggesellschaft m.b.H. (under liquidation)	n/a	Consolidated	13 Oct. 2022	Liquidation
HYPO NOE Versicherungsservice GmbH	Equity method	Consolidated	22 Dec. 2022	Partial disposal

10.2 Consolidated subsidiaries

The following consolidated, directly or indirectly held Group companies were included in the IFRS consolidated financial statements of HYPO NOE Landesbank as at 31 December 2022:

Company name	Domicile	Interest	of which indirect
HYPO NOE Landesbank für Niederösterreich und Wien AG	St. Pölten		
Adoria Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
ALARIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
ARTES Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%
Aventin Grundstückverwaltungs Gesellschaft m.b.H. (under liquidation)	St. Pölten	51.00%	51.00%
Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
BSZ Eisenstadt Immobilien GmbH	St. Pölten	100.00%	100.00%
CALCULATOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
CALLIDUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
CLIVUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
COMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
CURIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%
FAVIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
FORIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
HBV Beteiligungs-GmbH	St. Pölten	100.00%	-
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	66.67%	66.67%
HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%
HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%
HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	St. Pölten	90.00%	90.00%
HYPO Niederösterreichische Liegenschaft GmbH	St. Pölten	100.00%	100.00%
HYPO Officium GmbH	St. Pölten	100.00%	-
HYPO NOE Leasing GmbH	St. Pölten	100.00%	100.00%
HYPO Omega Holding GmbH	St. Pölten	100.00%	-
HYPO-REAL 93 Mobilien-Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%
Landeskrankenhaus Tulln-Immobilienvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	56.42%
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
METIS Grundstückverwaltungs GmbH	St. Pölten	90.00%	90.00%
NEUROM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%

NÖ. HYPO LEASING AGILITAS Grundstücksvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING ASTEWOG Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING FIRMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. HYPO LEASING GERUSIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING Landeskliniken Equipment GmbH	St. Pölten	100.00%	100.00%
NÖ. HYPO LEASING MEATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING MENTIO Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. HYPO LEASING STRUCTOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING URBANITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. Verwaltungszentrum - Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
PINUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	90.10%	90.10%
Sana Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
SATORIA Grundstückvermietung GmbH	St. Pölten	100.00%	100.00%
Strategic Equity Beteiligungen GmbH	St. Pölten	100.00%	-
Treisma Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%
VESCUM Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%
VIA-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VIRTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VITALITAS Grundstückverwaltung GmbH	St. Pölten	100.00%	100.00%
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	65.00%	65.00%
ZELUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%

10.3 Investments accounted for using the equity method

Significant accounting policies

Investments in associates and arrangements where there is joint control are recognised at acquisition cost and are included in the consolidated statement of financial position at the date on which significant influence is obtained. The pro rata carrying amounts of changes in equity are adjusted in subsequent periods.

The Group ceases to use equity method accounting from the point at which the investment no longer represents an associate or joint venture, or must be classified as held for sale in accordance with IFRS°5.

Exchange differences arising from investments accounted for using the equity method are reported as part of consolidated equity, in the currency translation reserve.

Investments accounted for using the equity method were as follows.

EUR '000	31 Dec. 2022	31 Dec. 2021
Banks	5,910	5,577
Non-banks	27,814	28,114
Total	**33,724**	**33,692**

31 Dec. 2022, EUR '000	Domicile	Interest	of which indirect	Carrying amount	Profit or loss from continuing operations	Segment/ Corporate Center	Reporting date
Joint ventures				**7,495**	**708**		
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	65	-9	Public Sector	31 Dec. 2022
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	719	7	Public Sector	31 Dec. 2022
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	5,910	333	Treasury & ALM	31 Dec. 2022
PPP Campus AM + SEEA GmbH	St. Pölten	50.00%	50.00%	16	1	Public Sector	31 Dec. 2022
PPP Campus AM + SEEA GmbH & Co KG	St. Pölten	50.00%	50.00%	770	377	Public Sector	31 Dec. 2022
PPP Campus RAP + LGG GmbH	St. Pölten	45.00%	45.00%	15	-	Public Sector	31 Dec. 2022
PPP Campus RAP + LGG GmbH & Co KG	St. Pölten	45.00%	45.00%	-	-	Public Sector	31 Dec. 2022
Associates				**26,229**	**-1,076**		
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	48.00%	-	2,255	98	Real Estate	31 Dec. 2022
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	3,034	838	Public Sector	31 Dec. 2022
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	641	3	Public Sector	31 Dec. 2022
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	302	16	Public Sector	31 Dec. 2022
NOE Immobilien Development GmbH*	St. Pölten	48.00%	48.00%	17,388	-2,011	Real Estate	30 Sep. 2022
VIVITliving GmbH	St. Pölten	24.50%	24.50%	2,430	-20	Real Estate	Formation
HYPO NOE Versicherungsservice GmbH	St. Pölten	48.00%	-	180	-	Retail and Corporate Customers	31 Dec. 2022
Total				**33,724,281**	**-367,764**		

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of an investment and that of the consolidated statements.

31 Dec. 2021, EUR '000	Domicile	Interest	of which indirect	Carrying amount as at 31 Dec. 2021	Profit or loss from continuing operations in 2021	Segment/ Corporate Center	Reporting date
Joint ventures				**6,786**	**1,349**		
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	74	-9	Public Sector	31 Dec. 2021
Viminal Grundstückverwaltungs Gesellschaft m.b.H. (under liquidation)	Vienna	-	-	-	-2	Public Sector	Liquidated
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	712	-5	Public Sector	31 Dec. 2021
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	5,577	989	Treasury & ALM	31 Dec. 2021
PPP Campus AM + SEEA GmbH	St. Pölten	50.00%	50.00%	15	-	Public Sector	31 Dec. 2021
PPP Campus AM + SEEA GmbH & Co KG	St. Pölten	50.00%	50.00%	393	393	Public Sector	31 Dec. 2021
PPP Campus RAP + LGG GmbH	St. Pölten	45.00%	45.00%	14	-2	Public Sector	31 Dec. 2021
PPP Campus RAP + LGG GmbH & Co KG	St. Pölten	45.00%	45.00%	-	-16	Public Sector	31 Dec. 2021
Associates				**26,905**	**1,858**		
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	48.00%	-	2,157	-415	Real Estate	31 Dec. 2021
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	2,865	813	Public Sector	31 Dec. 2021
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	638	-34	Public Sector	31 Dec. 2021
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	1,846	1,084	Public Sector	31 Dec. 2021
NOE Immobilien Development GmbH*	St. Pölten	48.00%	48.00%	19,399	411	Real Estate	30 Sep. 2021
Total				**33,692**	**3,207**		

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of an investment and that of the consolidated statements.

The profit or loss from continuing operations shown in the table corresponds to total comprehensive income in accordance with paragraph B16(d) IFRS 12.

Losses totalling EUR 94thsd (31 Dec. 2021: EUR 28thsd) were not recognised in profit or loss. These accumulated losses rose by EUR 66thsd in 2022, whereas they fell by EUR 224thsd in 2021.

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

	Niederösterreichische Vorsorgekasse AG		NOE Immobilien Development GmbH (consolidated financial statements)*	
Percentage holding	**49.00%**	**49.00%**	**48.00%**	**48.00%**
EUR '000 as at reporting date	**31 Dec. 2022**	**31 Dec. 2021**	**30 Sep. 2022**	**30 Sep. 2021**
Non-current assets	10,093	9,221	104,611	76,849
Current assets	5,309	3,684	18,271	8,770
Cash and cash equivalents	*549*	*341*	*10,441*	*5,145*
Non-current liabilities	-1,091	-156	-40,731	-34,287
Non-current financial liabilities	*-*	*-*	*-40,377*	*-34,221*
Current liabilities	-2,250	-1,367	-39,725	-10,917
Current financial liabilities	*-8*	*-*	*-2,081*	*-2,081*
Net assets (100%)	**12,062**	**11,382**	**42,426**	**40,414**
Group share of net assets	**5,910**	**5,577**	**20,364**	**19,399**
Impairment gains/losses	-	-	-2,977	-
Carrying amount of interests in associates	**5,910**	**5,577**	**17,388**	**19,399**

EUR '000 – profit/loss as basis for inclusion in annual report	**2022**	**2021**	**Q1-Q3 2022**	**Q1-Q3 2021**
Interest income	463	253	1,048	676
Interest expense	-	-	-208	-847
Other income	4,731	4,391	13,678	24,507
Operating expense	-4,282	-1,952	-11,437	-22,559
Depreciation, amortisation and impairment	*-23*	*-29*	*-517*	*-362*
Profit before tax	**911**	**2,693**	**3,081**	**1,777**
Income tax expense	-231	-675	-1,069	-921
Profit for the year (100%)	**680**	**2,018**	**2,012**	**856**
Group share of profit/loss	**333**	**989**	**966**	**411**
Impairment gains/losses	**-**	**-**	**-2,977**	**-**

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of an investment and that of the consolidated statements.

Estimation uncertainties and judgements

The positions held by key management personnel on the management boards of associates and joint ventures, as well as other relevant details, are set out in Note 10.4 Disclosures on related-party relationships.

Niederösterreichische Vorsorgekasse AG (NÖVK) is a separate financial services provider, and is the employee benefit fund that manages employees' termination benefit entitlements. Employers pay statutory contributions on behalf of employees. The manner in which the management board is appointed and the requirement for unanimous resolutions mean that the company is classified as being under joint control.

For the purpose of impairment testing in accordance with IAS 36, the fair value of NÖVK as defined by IFRS 13 was calculated using the dividend discount model (DDM) to determine the value in use, as there are no grounds to expect any synergy effects going beyond this. In applying the DDM – a form of discounted cash flow method – future expected dividends are discounted using the cost of equity. The present value of the financial surpluses calculated in this way represents the fair value.

In order to calculate the present value of NÖVK's expected dividends, the distributable amounts budgeted by its management were discounted, using the discount rate. The budgeting of the distributable amounts took account of the statutory requirements such as the own funds requirement and the allocations to the capital guarantee reserve.

The discount rate employed for NÖVK corresponds to the pre-tax cost of equity. It is derived from the capital asset pricing model (CAPM), and has the following components:

- The risk-free rate of interest (the 30-year spot rate calculated in accordance with the Svensson method, using the parameters published by the Deutsche Bundesbank); as well as
- a market risk premium based on:
  - the implicit market risk premium for Austria (ATX Prime) and
  - the beta factor (drawn from the parameters of listed peers)

As of 31 December 2022 this was 11.22% (year-end 2021: 14.18%).

Besides the detailed budgeting phase, the time horizon applied to measurement consists of the rough budgeting and pension phases.

The time horizon of the detailed budgeting phase is five years, matching that of the NÖVK management's medium-term planning. The planned average annual post-tax profit growth rate (compound annual growth rate [CAGR]) during the detailed budgeting phase is 6.5% (2021: 10.5%).

To allow for reliably forecastable special effects, a further six years (rough budgeting phase) were added for impairment testing purposes. One such special effect would be attainment of the NÖVK management's target for excess cover of the maximum own funds requirement. The CAGR in the rough budgeting phase is -0.1% (2021: +1.1%).

The rough budgeting phase is followed by the pension phase, with a long-term growth rate of 2.00% (2021: 2.15%), which is equal to the ECB's medium-term inflation target.

in % **NÖVK: key assumptions**	**31 Dec. 2022**	**31 Dec. 2021**
Pre-tax discount rate (cost of equity)	11.22%	14.18%
CAGR in the detailed budgeting phase	6.50%	10.50%
CAGR in the rough budgeting phase	-0.10%	1.10%
Long-term growth rate in the pension phase	2.00%	2.15%

Following the bond market crash of 2022 – caused among other factors by the Ukraine war, the gas shortage and increased inflation – and the consequent negative performance, NÖVK's result in 2022 was significantly below target. In the medium-term budget these risks are taken into account by the performance assumptions of the collective investment fund (CIF), both through the impact of inflation on the company's expenses and on the contributions of the CIF. NÖVK expects results to improve in subsequent periods, provided that there are no further massive external shocks such as the spread of the Ukraine war to other countries or power outages.

Impairment testing did not indicate any need to recognise impairment losses on the fund's investments accounted for using the equity method as at 31 December 2022.

Change in fair value in EUR '000 **Sensitivity analysis**	**31 Dec. 2022**	**31 Dec. 2021**
50 bp increase in pre-tax discount rate	-593	-343
50 bp decrease in pre-tax discount rate	665	375
1 bp increase in net margin as percentage of accrued benefits after the detailed budgeting phase	361	251
1 bp decrease in net margin as percentage of accrued benefits after the detailed budgeting phase	-397	-266

NOE Immobilien Development GmbH (NID) specialises in property development, housing construction and neighbourhood development, with a focus on Lower Austria and Vienna. It mainly invests in intergenerational residential construction schemes forming part of municipal urban development projects. The HYPO NOE Group's significant influence over the company is exercised by means of voting rights and the appointment of members of the Group's key management to supervisory board positions.

The recoverable amount of the investment in NID was calculated for the purpose of impairment testing in accordance with IAS°36. As no material synergy effects are likely, measurement of the recoverable amount is at fair value in accordance with IFRS 13, using the discounted cash flow (DCF) approach, in line with the gross method (WACC). Under the WACC approach, the fair value of total capital (enterprise value) is arrived at by discounting free cash flow using the weighted average cost of capital (WACC), a mixed rate comprising the cost of equity and borrowing costs. The fair value of equity (equity value) is calculated by deducting the fair value of interest-bearing debt from that of total capital.

In order to calculate the present value of the cash flows, NID's free cash flow is determined on the basis of management's integrated corporate budget and discounted using the WACC. When calculating the WACC for NID, the cost of equity is determined using the CAPM (see description in relation to NÖVK, above), while borrowing costs are arrived at by reconciling the median credit ratings of peer group members with the yield curve (for 30-year maturity) of European corporate bonds corresponding to this rating. The target capital structure realisable within the budgeting period is measured by the median leverage ratio of the peer groups at fair value, and remains constant over the entire time horizon. NID's pre-tax discount rate (WACC) as at 31 December 2022 was 9.18% (2021: 7.51%).

The time horizon of the medium-term budget drawn up by NID's management is greater than five years, as account must be taken of special factors related to the performance of property before a long-term profit forecast can be made. An example of these is the adjustment for funds tied up in regulatory provisions for any warranty claims after apartment handovers. The CAGR of EBIT during the 2022-2031 budgeting phase is +5.7% (2021: +2.9%), and that in the subsequent pension phase is zero (2021: zero).

in % **NID: key assumptions**	31 Dec. 2022	31 Dec. 2021
Pre-tax discount rate (WACC)	9.18%	7.51%
CAGR in the budgeting phase	5.70%	2.90%
Long-term growth rate in the pension phase	-	-

The budgeting that serves as the basis for determining the recoverable amount assumes delays in obtaining planning permission for some property projects due to the Covid-19 pandemic. In addition, due to the Ukraine war and other factors, appropriate assumptions were made with regard to existing projects and acquisitions included in the medium-term budgeting, in order to cater for construction cost fluctuations and rising borrowing costs. At the same time a significant increase in the discount rate for NID was observed in 2022.

Impairment testing indicated a need to recognise impairment losses of EUR 2,977thsd on NID's investments accounted for using the equity method as at 31 December 2022. This was primarily due to the higher discount rate.

Change in fair value in EUR '000 **Sensitivity analysis**	31 Dec. 2022	31 Dec. 2021
25 bp increase in pre-tax discount rate	-1,154	-1,532
25 bp decrease in pre-tax discount rate	1,210	1,627

10.4 Disclosures on related-party relationships

Significant accounting policies

The State of Lower Austria holds an indirect interest of 70.49% in HYPO NOE Landesbank via NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% via NÖ BET GmbH. The State is therefore included under “Parent companies” in the table below. Further information regarding key management personnel is presented in Note 5.3.2 Staff costs.

The figures for “Identified staff” include the following:

- The Management and Supervisory boards of HYPO NOE Landesbank and their next of kin
- Chief executives of material subsidiaries
- The senior and key management of HYPO NOE Landesbank
- The chief executives of NÖ Landes-Beteiligungsholding GmbH and NÖ BET GmbH

Estimation uncertainties and judgements

The transfer prices between the HYPO NOE Group and related parties are arm’s length prices. The State of Lower Austria’s guarantees of loans and advances extended to third parties by HYPO NOE Landesbank, listed in the table below, are likewise all concluded on market terms.

31 Dec. 2022 EUR '000 Open balances	Parent companies	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties	Identified staff
Selected financial assets	**2,548,354**	**121,668**	**428,024**	**12,417**	**5,732**	**1,490**
Equity instruments	-	-3	26,229	7,495	219	-
Bonds	30,432	-	-	-	-	-
Loans	2,517,922	121,671	401,795	4,922	5,513	1,490
Selected financial liabilities	**141,899**	**533**	**52,649**	**698**	**17,375**	**2,431**
Deposits	141,899	533	52,649	698	17,375	2,431
Nominal value of loan commitments, financial guarantee contracts and other commitments	**655,837**	**42,729**	**21,824**	**2,473**	**969**	**319**
Loan commitments, financial guarantees and other commitments received	**2,837,444**	**-**	**-**	**-**	**-**	**-**
Nominal value of derivatives	**777,484**	**85,000**	**-**	**-**	**-**	**-**
Current period						
Interest income	41,764	2,093	8,070	358	75	13
Interest expense	-10,494	-	-8	-	-6	-8
Dividend income	-	-	670	-	-	-
Fee and commission income	-824	2	232	16	23	1
Fee and commission expense	-	-	-	-	-	-

31 Dec. 2021 EUR '000 Open balances						
Selected financial assets	**2,343,585**	**120,568**	**461,583**	**11,840**	**6,308**	**2,422**
Equity instruments	-	89	26,905	6,787	325	-
Bonds	32,658	-	-	-	-	-
Loans	2,310,927	120,479	434,678	5,054	5,983	2,422
Selected financial liabilities	**185,068**	**96**	**67,792**	**993**	**19,086**	**2,585**
Deposits	185,068	96	67,792	993	19,086	2,585
Nominal value of loan commitments, financial guarantees and other commitments	**795,784**	**34,011**	**10,892**	**2,404**	**5,828**	**265**
Loan commitments, financial guarantees and other commitments received	**177,665**	**-**	**-**	**-**	**-**	**-**
Nominal value of derivatives	**941,294**	**85,000**	**-**	**-**	**-**	**-**
Current period						
Interest income	42,028	2,054	7,816	94	66	3
Interest expense	-14,313	-	-25	-1	-2	-2
Dividend income	-	-	619	-	80	-
Fee and commission income	2,583	1	241	20	19	12
Fee and commission expense	-	-	-	-	-1	-6

Loans, advances and guarantees in accordance with section 237(1)(3) Austrian Business Code

The table below shows the loans, advances and guarantees extended to officers of HYPO NOE Group companies as at the end of the reporting period. These were furnished with customary banking collateral. The usual terms for officers were applied.

EUR ’000	1 Jan. 2022	Additions	Repayment/other change	31 Dec. 2022
Management Board	**285**	**-**	**-11**	**274**
Supervisory Board	711	171	-113	769
Total	**996**	**171**	**-123**	**1043**

EUR ’000	1 Jan. 2021			31 Dec. 2021
Management Board	**284**	**-**	**1**	**285**
Supervisory Board	709	230	-228	711
Total	**993**	**230**	**-228**	**996**

In the opinion of the HYPO NOE Group a service agreement concluded in 2022 in connection with the administration of subsidised homebuilding loans, which includes a clarification for the 2020-2027 period, cancels a related party receivable extant as at 31 December 2021. The effect, amounting to EUR 1,620thsd, is included in the “Fee and commission income” item for 2022, in the statement of profit or loss.

Transactions with parent companies are reported under the Public Sector segment. A description of these dealings can be found in Note 2.1 Public Sector segment.

10.4.1 Relationships with subsidiaries

Wolfgang Viehauser, a member of the Management Board, is chairperson of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten. A member of the Supervisory Board also sits on 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.

10.4.2 Relationships with entities accounted for using the equity method

Niederösterreichische Vorsorgekasse AG

A member of the HYPO NOE Group’s key management chairs the supervisory board of Niederösterreichische Vorsorgekasse AG. A member of the HYPO NOE Group’s key management belongs to the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

EWU Wohnbau Unternehmensbeteiligungs-GmbH and its subsidiaries

A member of the HYPO NOE Group’s key management is also a member of the management board of EWU Wohnbau Unternehmensbeteiligungs-GmbH, St. Pölten.

A member of the HYPO NOE Group’s key management is also on the supervisory board of EWU Wohnbau Unternehmensbeteiligungs-GmbH, St. Pölten.

Management Board member Wolfgang Viehauser is chairperson of the supervisory boards of EWU Wohnbau Unternehmensbeteiligungs-GmbH, St. Pölten, Gemeinnützige Wohnungsgesellschaft “Austria” Aktiengesellschaft, “Wohnungseigentümer” Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H (all domiciled in Mödling).

A member of the HYPO NOE Group’s key management is a member 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 Mödling).

NOE Immobilien Development GmbH

A member of the HYPO NOE Group’s key management is the deputy chairperson of the supervisory board of NOE Immobilien Development GmbH, St. Pölten.

A member of the HYPO NOE Group’s key management is a member of the supervisory board of NOE Immobilien Development GmbH, St. Pölten.

10.4.3 Relationships with parent companies

The deputy chairperson of the Supervisory Board chairs, and another member of the Supervisory Board is deputy chairperson of the supervisory board of NÖ Landes-Beteiligungsholding GmbH, St. Pölten.

11 EVENTS AFTER THE REPORTING PERIOD

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

12 GOVERNING BODIES OF HYPO NOE LANDESBANK

The following persons were members of the Management and Supervisory boards during the reporting period:

Management Board

Wolfgang Viehauser, Management Board Member Markets and Speaker of the Board
Udo Birkner, Management Board Member Finance, Risk & Operations

Supervisory Board

Günther Ofner, Chairperson
Michael Lentsch, Deputy Chairperson
Sabina Fitz-Becha
Birgit Kuras
Johann Penz
Ulrike Prommer
Karl Schlögl
Hubert Schultes

Delegated by the Works Council

Franz Gyöngyösi
Claudia Mikes
Rainer Gutleder
Peter Böhm

Federal commissioners

Ben-Benedict Hruby, Federal Ministry of Finance
Josef Dorfinger, Federal Ministry of Finance

Supervisory commissioners

Georg Bartmann, office of the State of Lower Austria
Peter Neurauter, office of the State of Lower Austria

St. Pölten, 22 February 2023
The Management Board

Wolfgang Viehauser
Management Board Member Markets and Speaker of the Board

Udo Birkner
Management Board Member Finance, Risk & Operations

ADDITIONAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2022
IN ACCORDANCE WITH IFRS
HYPO NOE GROUP

1 DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the 2022 consolidated financial statements of the HYPO NOE Group give a true and fair view of the Group's assets, finances and earnings, in conformity with the relevant accounting standards; and 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 describes the principal risks and uncertainties to which the Group is exposed.

St. Pölten, 22 February 2023
The Management Board

Wolfgang Viehauser
Management Board Member Markets and
Speaker of the Board

responsible for

Sales Strategy, Digitalisation & Retail Banking,
Marketing & Communication,
Public Sector,
Corporate Customers,
Real Estate Customers,
Treasury & ALM,
Press Spokesman

Udo Birkner
Management Board Member Finance,
Risk &Operations

responsible for

General Secretariat HR & Law,
Compliance, AML & Regulatory,
Finance, Risk,
Operations/Org. & IT, and
Internal Audit

2 Auditor's Report

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG, Sankt Pölten, Austria, and its subsidiaries ("the Group"), which comprise the consolidated Statement of Financial Position as at 31 December 2022, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements comply with the legal requirements and present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the Austrian commercial and banking law as well as the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB and Section 59a BWG.

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

Valuation of Receivables from Customers

The Management Board describes the procedure for recognizing a loss allowance in the notes to the financial statements in item accounting principles.

Risk to the Financial Statements

Receivables from customers net of loss allowance amount to EUR 11.5 bn in the statement of financial position.

As part of monitoring receivables from customers, the Group evaluates whether a loss allowance needs to be recognized. This evaluation includes assessing whether customers are able to meet the contractual repayment obligation in full.

The calculation of the loss allowance for individually significant defaulted receivables from customers is based on an analysis of the expected and scenario weighted future repayments. The selection and weighting of scanarios is generally based on the current status of collection of the receivables.

For defaulted receivables from customers not individually significant, the calculation of the loss allowance is based on statistically determined parameters. The calcualtion of the loss allowance takes into account exisiting collateral by using statistical loss given default rates.

For non-defaulted receivables from customers, a loss allowance is also recognized for the expected credit loss ("ECL") according to IFRS 9. In case of a signicficant increase of the credit risk (stage 2), ECL is calculated based on lifetime expected credit loss. The determination of ECL requires estimation and assumptions. These comprise rating-based probabilities of default and loss given default, which take information about current conditions and forecasts of future economic conditions as well as transfer between stages into account. The Group analyzed the effect of the current macroeconomic conditions on the future operations of its customers. Based on this analysis, the Group individually adjusted ("management overlay") the probabilities of default for selected customers and transferred these customers to stage 2.

The risk for the financial statements results from the fact that the calculation of the loss allowance for receivables from customers without state-guarantee collateral is based on assumptions and estimation to a significant extent, which in turn result in room for discretion and estimation uncertainty in respect of the amount of the loss allowance.

Our Response

In testing the recoverability of receivables from customers without state-guarantee collateral we performed the following relevant procedures:

- We analyzed the existing documentation for monitoring and recognition of the loss allowance for receivables from customers and assessed whether the procedures described therein are suitable to identify events of default and to adequately determine the loss allowance. Additionally, we compiled key controls relevant to our audit of the financial statements, assessed their design and implementation, and tested their effectiveness on a sample basis.
- Based on a sample of receivables from customers, we examined whether indicators of default exist. Sampling was performed both random and risk-oriented, taking in particular rating levels and changes in ratings into account.
- In case of default of individually significant receivables from customers, we assessed the Company's assumptions in respect of timing and amount of the expected repayments on a sample basis.
- For individually non-significant defaulted and non-defaulted receivables from customers for which a loss allowance was recognized, we analyzed the documentation of the applied method for consistency with the requirements of IFRS 9. Additionally, we evaluated, based on the internal validation, the models and their mathematical functionalities as well as the parameters used therein as to whether they are suitable to determine the loss allowance in an adequate amount.
- Based on the analysis performed by the Company, we retraced the derivation and rationale for the manual stage transfers.
- We assessed the Company's analysis of the effects of current macroeconomic conditions on selected customers as well as the rationale and appropriateness of the manual stage transfers resulting thereof.
- We verified the mathematical accuracy of the loss allowance by means of approximation of the calculation.
- We performed these procedures in cooperation with our financial mathematicians as specialists.

Other Matters

The consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG for the financial year December 31, 2021 have been audited by another auditor, who issued an unqualified opinion on these financial statements on February 23, 2022.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report and the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB and Section 59a BWG and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial 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 audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.

- We 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 purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty 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 audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication

Report on Other Legal Requirements

Group Management Report

In accordance with Austrian company law, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements. It is our responsibility to determine whether the consolidated non-financial statement has been prepared as part of the group management report, to read and assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact.

Management is responsible for the preparation of the group management report in accordance with Austrian company law.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 05 March 2021 and were appointed by the supervisory board on 05 March 2021 to audit the financial statements of Company for the financial year ending on 31 December 2022.

In addition, during the Annual General Meeting, we have been elected as auditors for the following financial year and appointed by the supervisory board.

We have been auditors of the Company, without interruption, since the consolidated financial statements at 31. December 2022.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

Engagement Partner

The engagement partner is Mr Bernhard Mechtler.

Vienna, 22 February 2023

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Signed by:

Mag. Bernhard Mechtler

Wirtschaftsprüfer

(Austrian Chartered Accountant)

3 REPORT OF THE SUPERVISORY BOARD

In 2022 the Supervisory Board comprised Günther Ofner, Michael Lentsch, Birgit Kuras, Peter Böhm, Sabina Fitz-Becha, Rainer Gutleder, Franz Gyöngyösi, Claudia Mikes, Johann Penz, Ulrike Prommer, Karl Schlögl and Hubert Schultes. The Annual General Meeting (AGM) held on 3 March 2020 saw the election of the shareholder representatives for the period up to the end of the AGM that will rule on the discharge of the Board from liability in 2024.

In 2022 there were five plenary meetings of the Supervisory Board, four meetings of the Loan Committee and of the Audit Committee, two meetings of the Risk Committee, and one meeting each of the Nominations and Remuneration committees. All the meetings complied with the legal regulations and the articles of association. The Supervisory Board was constantly kept informed by the sitting chairperson as to the matters discussed by the committees.

In the course of their activities, the Supervisory Board and its committees closely monitored the Bank's business performance. While the Covid-19 crisis was still one of the most important macroeconomic events in 2021, during the reporting period macroeconomic developments related to the war in Ukraine were the defining feature, in addition to the consequences of the pandemic. In light of these circumstances, inflation, rising prices, supply bottlenecks, interest rate increases and the risk of a wage-price spiral were identified as key risk drivers in 2022. Risk management activities focused more closely on these factors and their impact on the economy, with the aim of ensuring smooth banking operations. To this end, reports from the Risk Management Department were utilised to evaluate the risk position.

In 2022 the Supervisory Board thus 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.

The accounts and records, the **2022 annual financial statements, and the operational and financial review** of HYPO NOE Landesbank für Niederösterreich und Wien AG, to the extent that it discusses the annual financial statements, have been audited by the independent auditors, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. 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 recommendation of the Audit Committee and the annual financial statements for the year ended 31 December 2022, and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board, and hereby approves the 2022 annual financial statements in accordance with section 96(4) Austrian Companies Act.

The auditors KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft audited the **2022 consolidated financial statements** for compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, as applicable in the EU, and the Group operational and financial review for compliance with the Austrian Business Code. The audit gave rise to no objections and the auditors found that the statutory requirements had been fully met. In the opinion of the auditors, the consolidated financial statements give a true and fair view of the assets and finances of the Group as at 31 December 2022, and of its earnings and cash flows for the year then ended, in accordance with IFRS as adopted in the EU, and the additional requirements of section 59a Banking Act.

The auditors hereby confirm 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 issue an unqualified audit certificate. The Supervisory Board has concurred with the audit findings.

St. Pölten, 2 March 2023
The Supervisory Board

Günther Ofner
Chairperson

LIST OF ABBREVIATIONS

ABGB	Allgemeines bürgerliches Gesetzbuch (Civil Code)
AC	amortised cost
AG	Aktiengesellschaft (public limited company)
ALM	Asset Liability Management
Art.	Article
BaSAG	Bundesgesetz über die Sanierung und Abwicklung von Banken (Federal Act on the Recovery and Resolution of Banks)
BCBS	Basel Committee on Banking Supervision
BCM	business continuity management
bn	billion
bps	basis points
BWG	Bankwesengesetz (Banking Act)
CCF	credit conversion factor
CDS	credit default swap
CEE	Central and Eastern Europe
CHF	Swiss franc
COREP	common solvency ratio reporting
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSA	credit support annex
CSC	current service cost
CTM	critical terms match
CVA	credit valuation adjustment
DBO	defined benefit obligation
DCF	discounted cash flow method
DVA	debt valuation adjustment
EAD	exposure at default
EAR	exposure at risk
EBA	European Banking Authority
ECB	European Central Bank
ECF	expected cash flow
ECL	expected credit loss
EIR	effective interest rate

ESG	environmental, social, governance
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro
EUR m	million euro
EUR ’000/EUR thsd	thousand euro
EURIBOR	Euro Interbank Offered Rate
EWU	EWU Wohnbau Unternehmensbeteiligungs-GmbH
FI	financial institutions
FMA	Austrian Financial Market Authority
FV	fair value
FVO	fair value option
FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss
FX	foreign exchange
GmbH	Gesellschaft mit beschränkter Haftung (limited liability company)
GPP	general prior permission
HETA	Heta Asset Resolution AG
HFT	held for trading
HQLA	high quality liquid assets
HTM	held to maturity
HVS	HYPO NOE Versicherungsservice GmbH
IAS	International Accounting Standards
IBOR	interbank offered rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRA	integrated finance and risk architecture
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ILO	International Labor Organisation
INT	interest cost
ICS	internal control system
IPRE	income-producing real estate
IRB	internal ratings based
ISDA	International Swaps and Derivatives Association
ISO	International Organization for Standardization
KWh	kilowatt hour

LAC	liabilities at cost
LAR	loans and receivables
LCR	liquidity coverage ratio
LGD	loss given default
LIBOR	London Interbank Offered Rate
m	million
MREL	minimum requirement for own funds and eligible liabilities
MWh	Megawatt hour
n/a	not applicable
NACE	Statistical Classification of Economic Activities in the European Community
NBWRL	revaluation surplus
NID	NOE Immobilien Development AG
No.	number
NÖ	Niederösterreich (Lower Austria)
NPL	non-performing loan
NSFR	net stable funding ratio
OCI	other comprehensive income
OCR	overall capital requirements
OeNB	Oesterreichische Nationalbank (Austrian central bank)
OIS	overnight index swap
OLS	ordinary least squares
OpRisk	operational risk
OTC	over the counter
ÖNACE	Austrian Statistical Classification of Economic Activities
p.a.	per annum
P&L	profit and loss
PCAF	Partnership for Carbon Accounting Financials
PD	probability of default
PiT	point in time
POCI	purchased or originated credit impaired
RBC	risk-bearing capacity
RICO	Risk Management Committee
ROE	return on equity
RWA	risk weighted assets
S&P	Standard & Poor’s
SFR	stable funding ratio

SIC	Standing Interpretations Committee
SME	small and medium-sized enterprises
SPPI	solely payments of principle and interest
SREP	supervisory review and evaluation process
StabAbgG	Stabilitätsabgabegesetz (Stability Contribution Act)
thsd	thousand
TiGital	Accenture TiGital GmbH
TLTRO	targeted longer-term refinancing options
TSCR	total SREP capital requirements
TTC	through the cycle
UGB	Unternehmensgesetzbuch (Austrian Business Code)
UN	United Nations
UTP	unlikely to pay
VaR	value at risk
WAG	Wertpapieraufsichtsgesetz (Securities Supervision Act)
WEG	Wohnungseigentumsgesetz (Home Ownership Act)
WIFO	Austrian Institute of Economic Research

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Enquiries to landesbank@hyponoe.at

Website: en.hyponoe.at

Investor Relations: invorstorrelations@hyponoe.at

Tel. +43 (0)590 9100

Cover and interleaves: Robert Herbst (Carnuntum)
Martin Koller (Vienna)
Christian Kremsl (Schneeberg)