Semi-Annual Financial Report 2015

HYPO NOE GRUPPE

HYPO NOE GROUP **KEY FIGURES**

EUR '000	30 Jun. 2015	30 Jun. 2014	31 Dec. 2014
Total assets	**15,557,056**	**15,025,555**	**15,926,960**
Total eligible core capital in accordance with CRR and CRD IV	**605,306**	**652,556**	**614,757**
Equity ratio in accordance with Article 92(2)(c) CRR	15.66%	15.32%	14.85%
Cost/income ratio (CIR)	89.0%	80.6%	135.2%
Return on equity (ROE) after tax	2.4%	4.2%	-5.5%

CURRENT **RATING**

Standard & Poor's: A/stable/A-1

2015: HYPO NOE IN A PRIME POSITION IN THE AUSTRIAN BANKING SECTOR

The turbulent environment of recent years, both geopolitically and on the financial markets, continued to pose challenges for the Austrian banking sector in the first half of 2015. Banks constantly have to cope with extraordinary and one-off events, preventing them from developing on a consistent and comparable basis over time.

Despite of all the various crises, HYPO NOE has recorded solid performance over the last few years and is well positioned in the Austrian banking sector. This was emphatically confirmed by the international rating agency Standard & Poor's in the first half of the year: HYPO NOE is one of only two financial institutions granted a single-A rating with a "stable" outlook by S&P.

Our business model and strategy are firmly rooted in Lower Austria and Vienna. With its stable owner, the state of Lower Austria, HYPO NOE has a partner that the Bank, its customers and partners can rely on. HYPO NOE again reported strong consolidated equity for the first six months at EUR 571.5 million (m), an increase as compared to the end of 2014. The core capital ratio and the equity ratio remained significantly above the minimum regulatory requirements, at 13.4% and 15.7% respectively.

Despite the burdens imposed by statutory contributions – some of them applied for the first time – including the deposit guarantee scheme and in the form of the increased stability Levy, as well as further impairment of HETA bonds, we are able to report profit attributable to owners of the parent of EUR 6.6m for the first half of 2015. Group net interest income was EUR 65.6m, a year-on-year rise. The HYPO NOE Group's total assets stood at a healthy EUR 15.6 billion (bn) as at 30 June 2015, 2.3% lower than at year-end 2014. This is mainly due to a decline in the value of available-for-sale financial assets.

Impact of HETA moratorium still manageable despite further write-downs

The valuation assumptions used to measure impairment of the HETA bonds held by the Group were subjected to careful scrutiny during the first half. New information was taken into account, such as HETA's annual report and financial statements for 2014, as well as the memorandum of understanding signed between Bavaria and the Republic of Austria to settle all legal disputes, and further impairment losses of EUR 20.6m were recognised as a result of updates to the valuation model. The Group will be able to cope with the potential outcomes of the HETA debt repayment moratorium, which do not threaten the profit reported for the first half. In parallel, HYPO NOE has filed an appeal against the moratorium, which was imposed by the Financial Market Authority. The Constitutional

Peter Harold, Chairman of the Management Board

Nikolai de Arnoldi, Member of the Management Board

Court's decision to suspend the Act on Restructuring Measures for Hypo Alpe Adria Bank International AG has not had an effect on HETA's current payment obligations.

Outlook for the second half of 2015

Despite the present challenges and a persistently difficult environment, HYPO NOE enters the second half of 2015 in a good position and with optimism. The strategy we have followed for years, based on a regional focus, risk awareness and proximity to our customers, has proved its worth in a time of crisis, and we will continue to pursue it as "the bank at your side."

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

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

SEMI-ANNUAL FINANCIAL REPORT

AS AT 30 JUNE 2015
HYPO NOE GRUPPE BANK AG

SEMI-ANNUAL OPERATIONAL AND FINANCIAL REVIEW AS AT 30 JUNE 2015

HYPO NOE
GRUPPE

ECONOMIC CLIMATE

Global, European and domestic trends

After a muted start in the first quarter, the global economy started to pick up speed. With positive signs already coming out of the eurozone at the start of the year, evidence of the expected recovery in the US economy began to emerge soon after. At the turn of the year, the US economy suffered a temporary setback, yet again brought about by extremely unfavourable weather conditions. The rapid appreciation of the US dollar slowed growth, and a decline in investment in the fracking industry as a result of the drop in oil prices in the second half of 2014 further compounded the situation. Economic growth in China continued to slacken until the end of the period under review, when it stabilised at around 7%. Both the Chinese government and the People's Bank of China implemented stimulus measures, the effects of which are gradually making themselves felt. This recent loosening of fiscal policy in China has triggered a number of dangerous side effects, including a speculative bubble in the stock market which requires close monitoring in the months to come. Greece's debt problems continued to intensify during the first half of the year. After months of intensive negotiations between the Greek government and its creditors, it now appears that an agreement is within reach. Capital controls, closed banks and delayed payments to the IMF, followed by default on payments due to the IMF on 30 June, were among the consequences of the tough negotiations. The defensive walls erected by the eurozone over recent years, its rescue packages and the unfettered clout of the ECB had to contend with the potential bankruptcy of the Greek state.

By the end of the reporting period, the signal was clearly set for a very difficult few months ahead. While the current recovery in the global economy and relaxed fiscal policy on the part of central banks gives grounds for positivity, this is countered by numerous potential risks.

Financial markets

Developments on the world's financial markets could not have been more different in the first two quarters. While the first quarter was largely shaped by the positive effects of the quantitative easing (QE) programme that was announced in January and launched in March, April heralded a major shift. Interest rates on capital and money markets had fallen to the lowest level on record in the eurozone by April. The low rates were attributable to a combination of the effects of the QE programme, which were the driving force, and the constant decline in deflation up until January. With commodities prices stabilising in recent weeks, inflation has reversed and started to rise again, albeit from an extremely low base. The overreaction manifested in rates on the capital markets when the ECB's asset purchase programme was implemented in March appears to be correcting itself. While the ECB is now implementing the QE programme and extending its total assets, there are also signs of an interest rate turnaround in the USA, even though the Federal Reserve has been hesitant up until now. Increasing signs of an upturn, particularly from the construction sector and labour market, indicate that pressure on the Fed to act is set to increase. This year is expected to see one or two interest rate hikes. The upwards momentum witnessed in American capital-market interest rates since April is widely accepted as another factor behind the increased returns in the eurozone since they bottomed out in April. There are also signs of significant corrections on international stock markets after a delay, following new record highs in some cases. In addition to the rising returns outlined above, high valuations and an increase in the number of risk factors – most recently the threat of a Grexit – are behind these developments. The international tendency towards looser fiscal policy will continue to support stock markets for the foreseeable future. The USA will continue to be an exception to the rule, although Federal Reserve supremo Janet Yellen has already sent out early indications that 2015 will bring about a turnaround on interest rates. Escalation of the situation between Greece and its creditors and the development of other risk factors point towards investors adopting a cautious approach.

Austria

Economic forecasts predict that 2015 will be another year of very modest growth, at 0.6% (2014: 0.3%), meaning that Austria will remain below the eurozone average of 1.3% and the EU-28 average of 1.8%.

This marks a continuation of the weak growth of the past three years, with no improvement in sight until 2016, when recovery should be fuelled by increased internal trade and industrial output in the EU.

The ongoing slowdown can be put down to a number of factors both in Austria and internationally. Relatively high inflation continues to weigh heavily on household income, as reflected in a recent rise in rents, as well as a comparatively high tax burden placed on the working population and the strained situation on the labour market. While tax reforms will cut the tax burden to some extent in 2016, measures aimed at reinvigorating the economy will be neutralised by the need for counter-financing. It is also likely that private households will save a good half of the additional income, lessening the impact on demand.

In addition to the slowdown in the economic recovery, the recalculation of sovereign debt (in line with the European System of Accounts, in particular as a result of including off-balance-sheet/implicit liabilities) and the resulting increase in the government debt ratio from 74.5% to a provisional figure of 84.5% as at 31 December 2014 was another setback for politicians arguing in favour of further stimulus programmes. A reversal of the ongoing trend in rising government indebtedness is not expected until late 2016.

Danube region

The countries of the HYPO NOE Group's extended core market could again point to growth rates above the EU average in 2014. Growth sped up significantly in all the countries of the Danube region apart from Romania. In 2014, Hungary recorded the fastest growth in the region at 3.5%, ahead of Poland at 3.3%. These countries overtook the previous year's leader, Romania, which also posted very strong growth of 2.9%. In 2014 the Czech Republic's economy emerged from recession to grow by a solid 2.0% – the average for the region. Bulgaria's growth performance was slightly below the regional average, but represented a marked improvement.

The regional economy is set to grow at a very similar rate to last year in 2015, with the Bulgarian and Czech economies both forecast to grow by 2.6%. The initial indications are that the effects on the Danube region of the current conflict between Russia and Ukraine will largely depend on the structure of countries' trade and energy resources. A stress test for national exports carried out by the Vienna Institute for International Economic Studies, simulating a 10% decline in exports to Russia, yields an average decline in GDP of 0.2-0.4 percentage points for the Eastern European Danube region countries. Within this group, Bulgaria, Hungary and Slovakia are most dependent on Russian trade and energy supplies. The ongoing crisis in Greece could have a limited yet manageable impact on local financial markets in the Danube Region, particularly in Bulgaria and Romania, where subsidiaries of Greek banks have a significant share of the market. Local national banks have already initiated precautionary measures.

Personal consumption and capital investment are the main growth drivers in the region, while the trade balance is likely to be a less significant contributor than in 2014. Consumer confidence is rallying throughout the Danube region, particularly in the Czech Republic, Poland and Slovakia. It is very difficult to make accurate forecasts of how this economic upturn will play out because of the extension of the drawdown period for the 2007-2013 EU support programmes until 2015, as there is expected to be a "final spurt" towards higher national co-financing contributions in these countries and hence higher public spending. The 2014-2020 regional development programme for the Danube region (including the Czech Republic and Poland) amounted to around 12% of total regional GDP in 2013, or EUR 167 billion (bn). All the countries of the Eastern European Danube region are net recipients of EU funding. The EU support programmes account for the lion's share of public investment in the Danube region, making up between 40% and 90% of national spending. Joblessness in the region ranges from 5.9% in Romania to 10.8% in Slovakia, and has declined significantly since the start of the year. At present, unemployment is expected to decrease slightly over the next few years. The countries will meet all of the Maastricht criteria for budget deficits and government debt in 2015 according to current forecasts, with the exception of Hungary, where the ratio of government debt to national GDP is expected to come in at 75.0%.

Banking sector trends in the euro area and CEE

The sluggish economic recovery led to a decline in lending activity in 2014. After the ECB launched its asset purchase programme in the autumn of 2014 and started buying up government bonds in March 2015, there was a rise in lending to businesses and private households in Europe in the first half of the year. There is an increasing north-south divide in the European banking sector characterised by a prevalence of sufficiently capitalised banks on the one hand and mainly the banks in peripheral economies on the other. Financial institutions in the latter group are only slowly able to build up the necessary capital, due to large volumes of non-performing loans and relative lack of efficiency. Continued low interest rates and muted economic activity also had a negative impact on the outlook for the first half of the year, with the profit outlook for eurozone banks remaining limited.

Together, slow economic growth, geopolitical tensions, low interest rates, ever stricter regulatory requirements, and impairment losses for a number of Austrian banks (primarily stemming from CEE subsidiaries) have negatively impacted the profitability of the Austrian banking industry. In 2014 aggregate profit for Austrian banks including foreign subsidiaries – adjusted for losses relating to the Hypo Alpe Adria International – amounted to EUR 1.4bn, turning around losses of EUR 1.0bn in 2013.

Over the past few years profits have increasingly come from the Czech Republic, Slovakia and the more volatile Turkish and Russian markets. Profit for the year for Austrian banking subsidiaries operating in Central, Eastern and South-Eastern Europe (CESEE) declined year on year, due in particular to the increased risk provisions required in Romania and foreign currency lending measures in Hungary.

Capital adequacy at Austrian banks has steadily improved since 2008 thanks to a combination of stricter supervisory measures and the banks' own efforts, putting the sector above the European average. Events surrounding the winding up of HETA Asset Resolution AG (HETA), the successor institution of Hypo Alpe Adria Bank International AG, caused considerable confusion amongst a range of bond investors following the imposition of a temporary moratorium on repayment of the majority of its debt, not least due to the need for banks to recognise – in some cases significant – impairment losses relating to investments in the Austrian "bad bank". Unusually for the Austrian banking sector, there was no noteworthy capital market activity in the second quarter of 2015, as the important support usually provided by German bond investors was significantly reduced. However, restructuring measures in parts of the industry continued to make progress, including the authorisation of the restructuring plans for Österreichische Volksbanken AG (ÖVAG), whose division was entered into the company register. The functions of the lead institution will be transferred to Volksbank Wien-Baden, while Abwicklungsgesellschaft immigon portfolioabbau ag is scheduled to dispose of its assets by the end of 2017. The final phase will be to restructure Volksbank's regional operations, which involves transforming the current group of 41 banks into eight regional banks and two specialist institutions by the end of 2017.

Measures to clean up balance sheets continue to affect the Danube region banking sector and this is reflected in increased recognition of impairment losses. Aggregate NPL ratios in Hungary, Bulgaria and Romania were down slightly year-on-year, however, ratios continue to exceed 20% in these countries, particularly in the corporate segment. The Czech Republic, Poland and Slovakia boasted comparatively low NPL ratios of 5-8% in 2014. Lending increased in Slovakia (up 6.6%), Poland (up 3.8%) and the Czech Republic (up 3.5%) in 2014, while in Hungary (down 7%), Romania (down 3%) and Bulgaria (down 5%) lending to the non-finance sector continued to contract, despite positive overall economic growth.

FINANCIAL REVIEW

Key developments in the first half of 2015

EARNINGS (IFRS)

Profit for the period attributable to owners of the parent was down year on year at EUR 6.6 million (m) (H1 2014: EUR 11.7m), despite improvements in net interest income and in risk costs. Profit was affected by statutory contributions (to a deposit insurance fund and a resolution fund) which took effect for the first time, and additional impairment losses recognised on HETA bonds. The Gruppe Bank segment made the largest contribution to profits. The Leasing segment also delivered a substantial profit for the period, but the Landesbank and Other segments recorded losses before tax.

Group net interest income was EUR 3.6m up on the like period of 2014, at EUR 65.6m (H1 2014: EUR 62.0m).

Effective workout management yielded net gains on credit provisions of EUR 1.0m (H1 2014: net losses of EUR 0.2m), representing a positive year-on-year change of EUR 1.2m.

Net trading income climbed to EUR 3.9m (H1 2014: EUR 1.5m), mainly driven by fair value measurement of derivatives used as economic hedges.

General administrative expenses rose by 4.0% year on year, to EUR 67.4m (H1 2014: EUR 64.9m). This was principally due to the new statutory contributions to the deposit insurance and resolution funds, which amounted to EUR 3.77m (H1 2014: nil), as well as an increase in the financial stability contribution ("bank tax"), which rose to EUR 7.3m (H1 2014: EUR 6.6m). A reduction of EUR 0.85m in staff costs and the savings made on sundry other administrative expenses had a positive effect on earnings.

Net other operating income was up year on year, at EUR 22.2m (H1 2014: EUR 7.4m). The change was mainly due to debt buyback gains and gains on foreign currency measurement.

There was a net loss on financial assets of EUR 21.1m (H1 2014: net gain of EUR 0.2m) as a result of impairment recognised in relation to HETA bonds.

Net losses on hedges amounted to EUR 1.8m (H1 2014: net gain of EUR 2.7m).

Profit before tax was EUR 9.3m, EUR 6.1m lower than in the same period a year earlier (H1 2014: EUR 15.4m).

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

		H1 2015	H2 2014	2014	2013
Return on equity before tax*	Profit before tax/ ave. equity	3.3%	5.5%	-7.1%	14.3%
Return on equity after tax*	Profit for the period/ ave. equity	2.4%	4.2%	-5.5%	10.2%
Cost/income ratio	Operating expenses/operating income	89.0%	80.6%	135.2%	59.3%
Risk/earnings ratio	Credit provisions/net interest income	-1.5%	0.3%	5.3%	4.1%

*Intrayear indicators annualised on a per diem basis

ASSETS AND LIABILITIES (IFRS)

The HYPO NOE Group's total assets stood at EUR 15.6 billion (bn) as at 30 June 2015 – a fall of EUR 0.4bn or 2.3% as compared to year-end 2014. This partly reflected a EUR 0.1bn decline in the value of available-for-sale financial assets.

The fall in the positive fair value of hedges on the assets side of the IFRS statement of financial position was mirrored on the equity and liabilities side in the negative fair value of hedges.

On the equity and liabilities side, debts evidenced by certificates fell by EUR 0.4bn, while deposits from customers increased by EUR 0.3bn.

CHANGES IN EQUITY (IFRS)

IFRS consolidated equity including non-controlling interests was EUR 571.5m as at 30 June 2015, a rise of EUR 0.7m on year-end 2014. The increase mainly represents the profit for the period less the available-for-sale reserve.

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

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

Consolidated eligible capital in accordance with the CRR was EUR 605.3m as at 30 June 2015 (31 Dec. 2014: EUR 614.8m). Surplus capital as at 30 June 2015 was EUR 296.1m (31 Dec. 2014: EUR 283.6m), compared to a capital requirement of EUR 309.2m (31 Dec. 2014: EUR 331.2m). The core capital ratio in accordance with Article 92(2)(b) CRR was 13.4% (31 Dec. 2014: 12.3%), and the equity ratio in accordance with Article 92(2)(c) CRR was 15.7% (31 Dec. 2014: 14.9%).

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

OPERATIONAL REVIEW

Gruppe Bank segment

The Group's parent company, HYPO NOE Gruppe Bank, is a regional lender, committed to promoting and supporting the development of its home market – Lower Austria and Vienna – and of the wider Danube region. Wholly owned by the Lower Austrian state government, it concentrates on the larger customer segments served by the Group. Thanks to its commitment to sustainable, customer-focused operations, the Bank has a solid position in the Austrian and Danube markets for public, corporate, project and real estate finance, and treasury services. Its long experience is a strong selling point with these customer groups.

HYPO NOE Gruppe Bank operates in Austria – with a strong emphasis on the states of Lower Austria and Vienna – as well as in selected countries in its extended core market, the Danube region. The latter encompasses Bulgaria, the Czech Republic, Germany, Hungary, Poland, Romania and Slovakia. The Bank has opened representative offices in Bucharest, Budapest, Prague and Sofia so as to be in a position to deliver comprehensive customer service as well as optimum risk assessment.

Gruppe Bank's operating units held up well in a challenging market environment. The HETA moratorium did not alter Standard & Poor's view of the probability of government support for government-related entities. On 9 June the rating agency affirmed its A/A-1 issuer rating on the Bank with a "stable" outlook, implying that it remains of the opinion that the increased risks in the Austrian banking industry did not negatively affect the creditworthiness of the HYPO NOE Group. The strong capitalisation, stability and security conferred by the Bank's sole owner, the Lower Austrian state government, played a key role in the decision to maintain the rating. In the wake of the HETA moratorium and of a change in its rating methodology, on 11 May 2015 Moody's announced a downgrade on HYPO NOE Gruppe Bank's mortgage covered bonds by one notch to Aa1, but left the rating of its public sector covered bonds unchanged at Aaa (RUR).

The sustainability agenda is growing in importance for the HYPO NOE Group. During the first half of 2015 a staff unit dedicated to sustainability and reporting directly to the Management Board was set up at the parent institution. The unit addresses our strategic approach to these issues and consolidates the sustainability-related activities previously scattered around the Group.

PUBLIC FINANCE

The Public Finance Department partners are local and regional authorities, public agencies and infrastructure companies. During the first half of 2015 the department devoted most of its attention to business activities in our East Austrian core market as well as the countries and major cities targeted by our Danube region strategy.

The demand for a variety of bespoke finance solutions tailored to the needs of public building construction projects is being fuelled by the budgetary situation faced by state governments and local authorities. The department's prime objectives are to develop sustainable, integrated solutions for customers, in concert with other Group operations, and increasingly to figure as a provider of expertise and services – for example, by structuring public building construction projects aimed at creating social infrastructure. Public Finance always sets out to understand customers' special requirements and to deliver risk-aware advice and service.

Particularly in Austria, the Group is strengthening its one-stop, end-to-end public construction process chain. Throughout the design-develop-finance-build-operate cycle, our services are designed to create and preserve assets, and generate sustainable, long-term returns for public sector clients. For example, the HYPO NOE Group was the best bidder in the public tender procedure for the construction and maintenance of an on-site kindergarten for employees' children at Hietzing Hospital in Vienna. The project is being carried out by a Group company under a build-operate-lease agreement – a form of financing that helps the client to keep its deficit within the eurozone limits. Besides ensuring that the project meets the prescribed quality standards, and comes in on time and on budget, the Group is assuming responsibility for maintaining the building for a predefined period. And the scheme is a chance for the HYPO NOE Group to showcase the outstanding quality consciousness it brings to one-stop solutions – particularly crucial where PPP finance is concerned – in the Austrian capital.

Another priority is closer cooperation with development banks, such as the European Investment Bank (EIB), which offer tailored loans that bring many benefits for our customers.

The effects of the stability pact on state governments and local authorities are being seen in postponements of major investments. This meant that lending to the public sector in the first half of the year chiefly concerned standard investments in water supply and wastewater disposal infrastructure, as well as the renovation of educational and administrative buildings.

Close customer relationships and high-quality advice are especially important in a business environment like this. Ongoing training programmes – some organised in conjunction with partners such as the Lower Austria Community Management Academy and the Danube University Krems – ensure that our customer relationship managers have the competence to carry out their work successfully.

In the third quarter stepping up the provision of advice on bespoke finance solutions to state governments, local authorities, other public sector bodies and infrastructure companies will be at the top of the department's agenda.

REAL ESTATE FINANCE

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

In the first half of 2015 the department mainly concentrated on its target markets – Austria, the Czech Republic, Germany, Poland, Romania and Slovakia. A number of early loan repayments were recorded during the period. This was largely due to premature refinancing or real estate disposals. Leading analysts in Germany are predicting a sharp increase in loan-to-value (LTV) ratios, and anticipate the emergence of 100% LTV mortgages on some properties as early as this year. This means that heavy pressure both on the elasticity of lenders' demand for risk and on margins is on the horizon.

Low interest rates and historically low returns on alternative investments have driven a surge in demand across almost all real estate categories, and especially city centre rental apartment buildings. During the reporting period foreign investors continued to find the German commercial and residential property markets among the most attractive in Europe.

In the second half the department will continue to focus on our core real estate markets – Austria, Germany and the neighbouring EU member states in Central and Eastern Europe. It will keep a close watch on macroeconomic developments and regional property trends in its target markets outside Austria.

The volume of transactions involving commercial buildings is expected to hold at last year's levels for the remainder of 2015. During the second half the department will also give priority to stabilising profitability and optimising the lending portfolio by selectively seeking new customers among institutional investors, funds and property developers.

The department's business model is still based on office, shopping centre, retail park, residential property, logistics facilities and city hotel asset classes. As regards risk allocation, HYPO NOE Gruppe Bank is still confining itself to cooperating with experienced and trusted partners on real estate projects in prime locations and with relatively conservative funding parameters.

CORPORATE AND PROJECT FINANCE

The Corporate and Project Finance Department is HYPO NOE Gruppe Bank's centre of expertise in corporate banking and structured and project finance. In the first half of 2015 it showed another strong and significant increase in the Group's share of the corporate banking market. Success has come from a clear strategy: (i) broadening the Group's corporate customer base; (ii) boosting cross-selling to existing customers; (iii) building on the Group's good reputation with larger medium-sized companies as a source of bespoke finance for acquisitions, structured investment finance, spin-offs, etc.; and (iv) carefully calibrated exposures to project finance and to the Danube region.

The first half of 2015 was marked by continued weak demand for traditional lending, and by fierce competition on the terms of loans to high rated companies. However HYPO NOE Gruppe Bank was successful in sidestepping this competition by occupying attractive niche markets such as acquisition finance.

In the cause of its market experience, Corporate and Project Finance is continuing to highlight our role as a reliable partner with a long-term perspective and a strong commitment to the Lower Austrian business community, even in hard times. Customers are aware of our quick decision-making and our wide-ranging expertise in structured finance and tradition relationship banking as major assets. Recognition that we are working along the right lines comes from markable breakthroughs during the reporting period. This includes an outstanding role as the advisor to investors in a Lower Austrian technology company which is a global "hidden champion", an attractive relationship with one of the leading Austrian non-food retail groups, and a structured finance transaction to a borrower in the Danube region. Corporate and Project Finance has also sharply expanded its investment activities on behalf of corporate customers since the start of this year.

In the second half of the year the department expects to continue facing a very competitive market environment that will, as usual, be influenced considerably by external factors. Nevertheless, Corporate and Project Finance equipped well to continue ist growing path.

RELIGIOUS GROUPS & INSTITUTIONS, INTEREST GROUPS AND AGRICULTURE

During the first half of 2015 the sales department in charge of sales to church institutions, interest groups, statutory self-governing bodies and agricultural businesses extended several substantial investment loans to fund large projects.

The Bank assisted faith and social welfare organisations by backing charitable events and aid projects, and it is continuing to offer support services to these customer groups by way of carefully selected projects.

The Group's excellent short-term rating enabled the department to attract new customers for money market investments and achieve a big increase in existing customers' deposits. Mandates to manage special funds in cooperation with highly regarded partners have met with great interest from existing customers, and will remain a central element in the department's capital market investment services.

The main highlights of the department's product portfolio are:
- Funding of social infrastructure, such as care and social welfare centres, hospitals, schools and kindergartens, on behalf of selected customer groups;
- Finance solutions for church renovation and revitalisation projects;
- Short and medium-term money market investments;
- Ethical and sustainable capital market investments;
- Finance for agricultural businesses (food processing and retailing).

TREASURY AND FUNDING

The first two months of the year witnessed historically low credit spreads on senior unsecured and covered bonds. Austrian covered bonds continued to perform well, and the spread against their German counterparts narrowed still further.

During this period market refinancing operations focused on senior unsecured debt, and our issuance programme was implemented on schedule. At this time we also started roadshows in Japan with a view to becoming the first Austrian bank to return to this market. To this end we also listed the Bank's debt issuance programme in the Tokyo Stock Exchange's Pro Bond segment.

The rest of the half-year was characterized by high volatility, and market developments were mainly dictated by the HETA and Greek crises. The European bond market almost completely froze up at times, and HETA concerns hindered access to unsecured funding, especially for Austrian issuers. Meanwhile secondary market spreads again narrowed sharply, and there were isolated instances of unsecured private placements – mainly with German investors. A further Norwegian krone (NOC) 250m senior unsecured bond issue demonstrated the pulling power of the Bank's international reputation, even in troubled times.

Investments for the liquidity portfolio were kept to a minimum because of the unattractive risk premiums. However, we exploited chances to redeem bonds due in 2017 at tempting risk premiums. These opportunities had emerged on the secondary markets as a result of the HETA debt moratorium, and we were able to use them to make windfall gains.

Institutional Customers

Working to maintain relationships with other financial institutions is an important aspect of the mission of a regional bank like HYPO NOE Gruppe Bank AG. Besides business relationships with numerous banks in Austria and abroad, the Group also continues to actively manage links with insurance companies, pension funds and investment companies. In response to the – in part unexpected – events relating to the protracted restructuring of HETA Asset Resolution AG and the resultant need for information on the part of partners on the capital markets around the world, the HYPO NOE Group began from early March to pay still greater attention to the ongoing dialogue with investors.

Besides hosting various non-deal related roadshows in the German-speaking region, HYPO NOE Group also stepped up the number of contacts with investors in other European countries, so as to bring holders of Austrian securities up to date with recent developments. The relationships with partner banks also call for active maintenance. Therefore, active dialogue with correspondent banks remains, besides the continuous interaction with bondholders, an important recipe for success.

FOREIGN BRANCHES, REPRESENTATIVE OFFICES AND BRANCHES

HYPO NOE Gruppe Bank AG had no foreign branches in the first half of 2015, but operated representative offices in Bucharest, Budapest, Prague and Sofia.

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

Landesbank segment

HYPO NOE LANDESBANK AG

HYPO NOE Landesbank AG is responsible for the HYPO NOE Group's retail banking business. Its 30 branches provide outstanding service to private, self-employed and business customers in the Group's core market of Lower Austria and Vienna. Landesbank has defined family and housing, health, and education as the main pillars of its strategy.

It recorded growth in both lending and deposits in the reporting period. Thanks to a series of targeted marketing campaigns, the Bank's well-trained relationship managers won additional business from existing customers and attracted a large number of new customers.

We are already reaping rewards from the new regional structure introduced on 1 October 2014. The aims of this initiative include exploiting the potential for new business with existing and new customers more effectively, rolling out new multi-channel technologies, and expanding branch-based distribution.

The cooperation agreement with the organisers of the Lower Austrian state exhibition maintained the commitment of the "bank for the people of Lower Austria" to identifying its 30-strong branch network closely with the areas where customers live, helping Landesbank to meet its first-half targets. During these themed weeks we offered a range of promotional banking products, billed as "regional, reliable and traditional". Among these were special home loans on attractive terms and conditions, and the Lower Austria savings account, which has played a major part in winning new customers and in the recent growth in deposits. The emphasis on Lower Austria is intended to give the brand a still sharper profile and a positive image.

A customer acquisition campaign targeted at small and medium-sized companies in Lower Austria and Vienna, similar to those mounted in recent years, drove further growth in the business customer base. However, due to the profitability of this area of banking, we are braced for further intense competition for business from small and medium-sized enterprises as well as from housing developers.

During the reporting period we held on to our traditionally large share of the market represented by the main home builders, despite changes in the business environment.

Leasing segment

HYPO NOE LEASING GMBH

HYPO NOE Leasing GmbH and the project companies look after the leasing business won from the public sector as a whole, and the Lower Austrian state government in particular. Its core competency is complex lease agreements relating to real estate projects. In addition, the company offers real estate project management and business management services.

HYPO NOE Leasing is a leading provider of lease finance for public agencies, and is known for its ability to devise innovative and flexible financial solutions. The aim is to be the most efficient leasing company in Austria, and to offer unrivalled expertise in lease finance for the public sector.

The company faces headwinds from muted public sector investment activity, but its success in winning two large tenders meant that it met its targets for the first half of 2015 at a stroke.

Slow public sector investment in the second half is expected to hit traditional loan financing particularly hard, whereas there is an increased demand for deficit-neutral funding in the form of PPPs or operating leases, for which HYPO NOE Leasing has the necessary technical expertise and organisational set-up.

Other segment

HYPO NOE REAL CONSULT GMBH

HYPO NOE Real Consult GmbH is active in property development, construction, management and marketing, concentrating on the Lower Austria and Vienna region. Working in close collaboration with property experts elsewhere in the HYPO NOE Group, the company has a strong focus on property services and portfolios tailored to the needs of a changing society. This cooperation makes it possible to bring shared core expertise to bear on these areas in a goal-driven manner.

Restructuring of the project development team has created an efficient department dedicated to property development projects. The company made further progress on its own high-end home building projects in attractive locations in Vienna and Lower Austria, as well as some joint venture housing schemes. On the project management front, work continued on some major public sector construction projects. HYPO NOE Real Consult's extensive experience of cultural, educational and health sector projects again made this a solid and dependable market for its services. The Real Estate Management Department secured further contracts from third parties. During the first half of 2015 the company pressed ahead with the introduction of a variety of software and internet-based tools, and further improvements were made to already-high staff training standards. The Real Estate Marketing and Estate Agency Department has been contributing to HYPO NOE Real Consult's service portfolio since 2014. The department markets Group developments, and operates in the Lower Austrian and Viennese third-party property markets. Expansion and structuring of the team has been accelerated by current efforts to market Group-owned projects.

Since the start of 2015 a drive has been under way to restructure the Group's property services, with a view to optimising the positioning of the overall real estate services supply chain in the company's target markets. To this end some real estate functions are being centralised with NÖ Hypo Beteiligungsholding GmbH, which began operating during the period under review.

HYPO NOE FIRST FACILITY GMBH

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

The company is looking to reduce its vulnerability to the squeeze on margins in the standard FM business by repositioning itself as a quality and technology leader. Because of this, in 2015 and 2016 the tone will be set by efforts to hold on to existing, high-margin customers, and the company will be selective in its approach to competitive tenders for standard service packages.

This strategy was implemented systematically, together with related organisational development aimed at exploiting potential synergies across the Group's entire real estate value chain. HYPO NOE First Facility is being restructured to deliver growth and cost optimisation.

The targeted marketing strategy is bearing fruit in the shape of new customers and successful upselling to existing clients in Austria and abroad. While new energy management and measurement and control services are being introduced, HYPO NOE First Facility is also broadening its expertise and service offerings with regard to uninterruptible power supplies. The company is focusing on acquiring new key accounts in the health and public sectors, as well as among church-related bodies. Another new area of business is PPP models. The aim is to win the trust of many new customers through the firm's expertise and advantage in terms of economies of scale and to convince new business partners of the quality of its services. This will undoubtedly depend on winning relatively small contracts at first.

RISK REPORT

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

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

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

Risk management system

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

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

In principle, all quantifiable risks throughout the HYPO NOE Group are subject to the Group-wide, uniform limit system, which is constantly monitored. No risk may be assumed unless a corresponding limit is in place.

The Group-wide risk reporting system ensures that reporting of all risks is regular, timely and comprehensive. In addition to the monthly ICAAP report, which provides an aggregated summary of all risks and their capital coverage, the Management and Supervisory boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk developments.

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

Aggregate risk management and risk-bearing capacity (ICAAP)

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

Maintenance of adequate risk bearing capacity is monitored using two control loops:
1. The economic capital management control loop serves to protect against the dangers of creditor liquidation. Risks are evaluated at a high confidence level (99.9% with a holding period of one year) and compared with the risk coverage capital available in the event of liquidation.
2. The going concern management control loop, which is designed to ensure that the Bank survives as a going concern. In this case, risks are evaluated at a lower confidence level (95% with a holding period of one year) and compared with the realisable coverage capital available without endangering survival.

Despite the unfavourable market environment in the first half of this year, as at 30 June 2015 utilisation of the Group risk limit was only 74.6% (including an adequate buffer) – a slight decline as compared with 31 December 2014 (77.9%).

In the second quarter of 2015 the work on implementing a restructuring plan in accordance with the Bank Restructuring and Winding-Up Act (BaSAG), which came into force on 1 January 2015, was completed, finalised and approved by the responsible bodies. In the third quarter, the final version of the restructuring plan will be submitted to the Supervisory Board. The plan will form an integral part of the Group's risk and capital management framework.

Significant risk-related developments in the first half of 2015

CREDIT RISK

Refining our credit risk management system is seen as a long-term strategic growth driver for the Group.

BANK-WIDE STRESS TESTING

As part of internal bank-wide stress testing, in the opening six months of 2015 a comprehensive economic study provided the basis for the analysis of scenarios relevant to the HYPO NOE Group's business model (such as an economic downturn in Eastern Europe or a worsening EU sovereign debt crisis). The impact of the scenarios on credit, investment, interest rates and liquidity risk at subsidiary and Group level, in terms both of regulatory and economic risk-bearing capacity, was simulated. The results were presented to management and suitable countermeasures were devised. Bank-wide stress tests based on the annually selected scenarios are carried out every quarter.

BASEL III

In order to meet the additional reporting obligations under the Basel III framework in good time, we regularly examine the new requirements, assess whether there is need to implement them, and take appropriate action. The current focuses are on the implementation of the amended reporting requirements for the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) and the additional liquidity monitoring metrics, together with standardisation and automated generation of existing reports. In addition, a risk-weighted assets optimisation programme was launched, with the purpose of perfecting the technical and procedural methodologies for the calculation of capital requirements. This is currently governed by the Basel III regulatory framework, but will be extended to comply with the Basel IV regulations (BCBS "Revisions to the standardised approach for credit risk") as these are finalised.

COUNTRY ANALYSIS

In the light of the continuing sovereign debt crisis in Europe and in particular in connection with the developments affecting Greece, we are continuing to monitor developments in Italy, Ireland, Greece, Spain, Hungary and Cyprus especially. Our exposures in these countries are monitored very closely.

In Cyprus, a state-guaranteed loan to a government-related organisation is currently outstanding. Repayment is dependent on the allocation of sufficient funding from the national budget and – so far – is in line with the loan agreement.

Credit risk

Credit risk is the risk of deterioration in creditworthiness – ultimately, the risk of a counterparty or guarantor defaulting.

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

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

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

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

Internal ratings are generally used for credit risks, foreign exchange risks (defaults) and investment risks. There are relatively few unrated customers, and they are constantly monitored. Unrated loans are generally assigned a conservative 4A rating.

CREDIT RISK ANALYSIS

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

The operational credit risk management units are responsible for the full range of activities related to the assessment, monitoring and management of all risks associated with on and off-balance sheet lending at the individual customer level. The main emphasis is on checking both the form and content of loan applications and on the provision of the second opinions. The departments also have sole responsibility for the rating assessments (apart from those in the low-volume retail lending business).

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

Below a given rating level, exposures are classified as "watch loans", or transferred for intensive care to the Workout Management Department. The HYPO NOE Group applies rigorous standards as to what constitutes default. Forborne exposures (i.e. loans for which the terms and conditions have been amended for reasons of creditworthiness) are monitored by the market units in conjunction with operational credit risk management or by the Workout Management Department.

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

RISK PROVISIONS

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

Individual impairment allowances are determined on the basis of an assessment of the borrower's financial situation, taking into account the current valuations of collaterals, the repayment schedules, and projected cash flows and maturities.

Collective impairment allowances are recognised for reductions in the value of the Group lending portfolio (losses incurred but not reported) as at the end of the reporting period.

CREDIT RISK MONITORING AND PORTFOLIO MANAGEMENT

The Group Strategic Risk Management Department is responsible for monitoring credit risk at portfolio level.

Management is kept up to date with changes in credit risks by monthly credit risk reports, and regular or case-by-case reports on risk-related issues (transfer of accounts to the Workout Management Department, overdraft trends, etc.). Management is comprehensively briefed on the Group's risk situation, including in-depth analysis of selected issues, at meetings of the Risk Management Committee (RICO).

CURRENT RISK SITUATION

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

HETA Asset Resolution AG

The notice on HETA issued by the FMA on 1 March 2015 created a situation that directly affects the HYPO NOE Group. In 2006 and 2007 the HYPO NOE Group subscribed to Hypo Alpe-Adria-Bank International AG bonds guaranteed by the State of Carinthia and maturing in 2017. These bonds are the subject of the FMA decision. There are no other secured or unsecured loans or advances to HETA. The HETA bonds held by the Group fall due in the second half of 2016 and in 2017 – in other words, after the moratorium set by the FMA has expired. In its ruling, the FMA concluded that in addition to HETA's current overindebtedness, the company could become insolvent in the near future (i.e. in or after 2016 at the latest) unless regulatory measures were taken. It is therefore possible that the FMA could extend the moratorium, impose further measures pursuant to the Bank Restructuring and Winding-Up Act (including creditor participation that would result in the definitive elimination of creditor claims against HETA) or take similar steps which would affect repayments of principal and interest payments amounting to around EUR 8.6m. In light of these considerations, the management boards of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG decided on the basis of a valuation model to recognise impairments of EUR 63.9m in profit or loss, effective 31 December 2014.

As reported in the media, the ECB has recommended recognising impairment losses of at least 50% of the nominal value of the state-government-backed HETA debt instruments. On the basis of information currently available to the Group, this estimate does not reflect the current position.

The recommended write-down is based on a valuation model applied because there was no active market for HETA debt issues as at the end of the 2014 financial year. This assessment reflected the low trading volumes for HETA debt, as well as significant variations between the stock exchange prices posted by the various market participants in the price information systems and the extremely high bid/ask spread quoted in the systems. The valuation model is based on unobservable estimates regarding the timing and size of outstanding payments of principal and interest on HETA bonds backed by the State of Carinthia.

Relevant and publicly available information on the HETA situation was used. The risk associated with future payments was reflected in appropriate discounts. The effect of delayed payments was taken into account using risk-free discount rates appropriate to the currencies and maturities of the bonds.

As part of the process of reviewing the valuation assumptions as at 30 June 2015, the following new information was taken into consideration. HETA published its individual and consolidated financial statements for the financial year 2014 on 17 June 2015. With respect to the further legal developments surrounding wind-down bank HETA, a memorandum of understanding was concluded between the Free State of Bavaria and the Republic of Austria. Its purpose is to settle all the legal disputes between BayernLB and HETA, the Austrian government and Kärntner Landesholding. On the basis of the new situation, additional impairment of EUR 20.6m became necessary in the period under review when the valuation model was updated. The cumulative write-down through profit or loss as at 30 June 2015 amounted to EUR 84.5m. HYPO NOE Group will be able to cope with the effects of the debt moratorium imposed on HETA.

The Austrian Constitutional Court's decision of 28 July 2015 to suspend the Act on Restructuring Measures for Hypo Alpe Adria Bank International AG (HaaSanG) for HETA as unconstitutional has no effect on the internal valuation assumptions, because the liabilities affected have already in part been provided against in HETA's financial statements or it can be assumed that because of their subordination they will have been completely written off before a haircut of the HYPO NOE liabilities could be applied.

The bonds of HETA Asset Resolution AG held directly by HYPO NOE Gruppe Bank AG and indirectly through other members of the Group are subject to a temporary moratorium imposed by the FMA on HETA's liabilities to its creditors. HYPO NOE Gruppe Bank AG has lodged an appeal against the FMA's moratorium order.

Pfandbriefbank (Österreich) AG

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

As a result of the FMA notice of 1 March 2015, HETA is not permitted to repay amounts owing to Pfandbriefbank (Österreich) AG. However, Pfandbriefbank (Österreich) AG must redeem debt instruments issued to third parties on behalf of HETA. Should Pfandbriefbank (Österreich) AG not receive sufficient without recourse funding from its member institutions and guarantors to cover the outstanding payments, this would lead to a cross default on all debt instruments issued by Pfandbriefbank (Österreich) AG. These amount to around EUR 5.5bn and creditors would be entitled to demand repayment directly from any member institution and any guarantor.

As part of an agreement with the member institutions and the State of Carinthia, the Management Board of HYPO NOE Gruppe Bank AG has undertaken to provide financing for one-eighth of the EUR 1.2bn of debt instruments issued on behalf of HETA, i.e. about EUR 155m. This amount includes the share of the state of Lower Austria and that of HYPO NOE Gruppe Bank AG, of which around EUR 74m in respect of instruments payable by 30 June 2015 has already been assumed. In a session of the Lower Austrian parliament on 19 March 2015 and at a meeting of the Lower Austrian government on 24 March 2015, the state of Lower Austria agreed to guarantee the obligations of HYPO NOE Gruppe Bank AG, in fulfilment of its joint and several liability pursuant to the Pfandbriefstelle Act. The guarantee has been recognised by the Group as a financial guarantee in the meaning of paragraph 9 IAS 39, with the result that recognition of a risk provision was not necessary. In return, HYPO NOE Gruppe Bank AG undertook to pay an appropriate consideration (less the set-off of refinancing costs incurred) as well as full compensation for drawdowns in the form of a debtor warranty contingent on the Bank's future profits. The value of the warranty was measured at EUR 0.9m as at 30 June 2015, and was expensed through profit or loss. With regard to the agreement, there is a risk that other member institutions or guarantors may not fulfil their obligations under the Pfandbriefstelle Act. In such an event, new agreements may have to be concluded.

Other

In addition to the claims against HETA and the financing of an eighth of the debt instruments issued on HETA's behalf, there are also holdings of debt instruments issued by a company belonging to the State of Carinthia which fall due between 2023 and 2029.

Subsidised home loans by the Lower Austrian state government account for a considerable proportion of the HYPO NOE Group's total lending. Additional security for this lending is provided by a guarantee of the whole amount by the state government, and the credit risk on these exposures is therefore low.

HYPO NOE Gruppe Bank AG also finances selected public sector loans, real estate projects with excellent or good credit ratings, as well as certain infrastructure enterprises and foreign corporate customers. HYPO NOE Landesbank AG specialises in retail banking, large-scale housing construction (both housing associations and private sector housing) and SME finance.

The credit portfolio shows no notable concentrations of risk from a Group perspective. Most of the Bank's operations relate to lending to the Austrian public sector.

The decision of the Swiss National Bank on 15 January to abandon its floor of CHF 1.20 to the euro has allowed the Swiss franc to appreciate and made increases in provisions necessary.

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

The non-performing loan (NPL) ratio, defined as total exposure on default customers (5A-5E rated) divided by total loans and advances to customers, is calculated at Group level. As at 30 June 2015 this was 2.83% (31 December 2014: 2.30%).

Market risk

GENERAL

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

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

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

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

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

INTEREST RATE RISK ON THE BANKING BOOK

In its approach to the measurement and control of interest rate risk, the HYPO NOE Group distinguishes between period net interest income risk, which primarily addresses the risk of net interest rate fluctuations in a given period, and present value risk, which measures the loss in underlying value of a particular portfolio as a result of interest rate-induced changes in present values.

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

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

Interest rate risk management

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

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

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

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

Banking book

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

Individual portfolios

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

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

Even with a perfectly selected fixed-interest position and the structural contribution from maturity mismatch, there are fluctuations in net interest earnings as a result of differences in the behaviour of the various reference rates (three-month Euribor, six-month Euribor, etc.) or of the same reference rates but different interest fixing dates.

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

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

Current risk situation

The Oesterreichische Nationalbank statistics indicate that as of 30 June 2015 interest rate risk was moderate relative to the regulatory limit (20% of eligible capital), at 8.43% (31 December 2014: 7.59%), because fixed interest rate risks on own issues, on securities in the Bank's nostro accounts and on loans and advances to customers are as a matter of principle eliminated by microhedging when acquired or issued. Other derivative interest rate risks or open on-balance-sheet interest rate risk positions are only assumed within strictly defined internal limits and following a rigorous assessment. As a result, the level of such risks is low.

CREDIT SPREAD RISK

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

FOREIGN EXCHANGE RISK

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

Current risk situation

Because of the HYPO NOE Group's strict limits on open foreign currency positions, even the Swiss National Bank's unexpected decision on 15 January 2015 to abandon its floor of CHF 1.20 to the euro has led to no significant exposure to foreign exchange risk, and there are no significant effects on open foreign exchange risk positions. CHF exchange rate movements do however have an effect on credit risk (see also section on the current risk situation for credit risk, above).

OPTIONS RISK

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

TRADING BOOK RISK

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

BASIS RISK IN HEDGE ACCOUNTING

Hedges do not always offer effective protection against valuation losses, because there can be differences between the hedging instrument and the position hedged in the terms and conditions, specific features or other basis risks. Changes in the financial market environment (e.g. multiple curve approaches or OIS discounting of hedged derivatives) can potentially cause present value IFRS earnings losses on balance sheet microhedges, reflecting the resulting hedging inefficiencies. These effects are regularly analysed and monitored by Group Strategic Risk Management.

CVA RISK

The HYPO NOE Group's market-based valuation methodology for determining the fair value of derivative instruments takes into account counterparty risk and the exposure to credit risk (credit valuation adjustment and debt value adjustment), and the effects are recognised in Group profit and loss as they arise.

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.

LIQUIDITY RISK MANAGEMENT

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

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

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

IMPLEMENTING INTRADAY LIQUIDITY RISK MANAGEMENT

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

IMPLEMENTATION OF LIQUIDITY RISK MANAGEMENT

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

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

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

New business and prolongations require an annually updated budget and medium-term planning with a five-year planning horizon. Funding planning is performed by the Group Treasury Department. Major decisions with respect to new issues that deviate significantly from this framework are taken on a case-by-case basis by the Management Board on the basis of recommendations by Group Treasury.

Evaluation and monitoring of the HYPO NOE Group's operational liquidity capacity is measured monthly in terms of the length of time the Bank is able to survive ("time to wall") in the worst-case stress scenario. In addition to time to wall, the regulatory LCR is an important control metric for operational liquidity.

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

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

CONTINGENCY PLAN

There is a liquidity contingency plan, to ensure that effective liquidity management can be maintained even in a market crisis. The plan sets out the responsibilities in case of emergencies, the composition of the crisis management teams, the internal and external communication channels, and the actions to be taken. In emergency situations a crisis management team takes over control of liquidity management and decides on a case-by-case basis on the action to be taken.

CURRENT RISK SITUATION

The HYPO NOE Group's liquidity situation remains satisfactory. As a result of the HETA moratorium and the effects of the Greek crisis, Austrian banks' access to capital markets is severely limited. The Group currently has sufficient access to alternative refinancing instruments – in particular, there continue to be sufficient assets eligible as collateral for ECB tenders. The worst-case time to wall before taking liquidity support measures into account was 13 weeks (in a combined crisis) as at 30 June 2015, and the LCR at that point stood at 120%.

Operational risk

Operational risk is the danger of losses arising directly or indirectly from the inadequacy or failure of internal processes, people or systems, or from external events.

In the HYPO NOE Group operational risks are kept under control by regularly adapting and improving internal guidelines, and by means of emergency plans, systems of internal checks, ongoing staff training and development, and the insurance of certain risks. The operational risk database plays a vital role in the improvement of existing processes.

There is also an emphasis on continuous improvements in the effectiveness and efficiency of operational risk management processes. The extension of the internal control system (ICS) is intended to minimise the likelihood and effects of operational risk. Risks are systematically identified and assessed, controls are drawn up and, where necessary, key processes are adapted.

Reputational risk

The HYPO NOE Group attaches great importance to avoiding reputational risk, and it is therefore treated as a separate risk category. The Group's code of conduct sets out the common values and principles shared by all HYPO NOE employees. Avoiding potential damage to the reputation of the HYPO NOE Group is a vital consideration when making business decisions, and a process for evaluating reputational risk is now in place. Our independent Group ombudsman deals quickly and efficiently with customer queries (such as complaints and misunderstandings) and aims to find satisfactory solutions to problems in consultation with the customers themselves. Besides meeting the statutory requirements for improving customer relations, the goal of these activities is to reduce reputational risk.

Other risks

"Other risks" consist largely of business risk (the danger of loss as a result of a deterioration in the economic environment and in the Bank's business relationships) and strategic risks (the danger of losses arising from decisions concerning the Bank's strategic focus and business development).

BUSINESS RISK

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

Sufficient risk capital is maintained to cover unquantifiable risks.

Legal risks

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

As at 30 June 2015 provisions were in place against legal risks from pending proceedings connected with derivatives and credit restructuring.

GROUP OUTLOOK FOR 2015

Market outlook

As expected, the US economy has turned the corner. Our view is that the upswing will continue until the end of the year, and may even pick up additional momentum.

Prospects for the BRICS states (Brazil, Russia, India, China and South Africa) remain gloomy. As a result of the sanctions imposed by the West and the collapse in commodities prices, Russia is heading for recession. Home-grown and structural issues continue to be a problem in Brazil, but commodities prices are also contributing to recession there.

Other hotspots also represent a potential source of danger to the general trend towards global economic recovery. Recent geopolitical crises have not receded, and in some instances the opposite is the case. After an interval of calm in the Ukraine conflict, recent reports point to renewed tensions in the area. Terrorism by Islamic fundamentalists has increased as the year has progressed, with outbreaks becoming noticeably more frequent. At present the debt problems in Greece seem to be becoming less dramatic, but it remains to be seen whether the measures agreed will find broad-based acceptance among the population.

For the eurozone, the HYPO NOE Group is predicting modest GDP growth of 0.5% per quarter in the second half of 2015. For the year as a whole, economic growth should reach 1.4%, after a mere 0.9% in 2014. Personal consumption continues to support the growth trend, and unemployment in the eurozone is expected to gradually decline. As things currently stand, the second half of 2015 is not expected to produce any change in the ECB's monetary policy: liquidity in the European financial system will continue to be in abundant supply.

Central and Eastern Europe (CEE) enjoyed a more positive start to 2015 than expected – buoyed by the recovery of demand in the eurozone and the ample liquidity injected by the ECB's bond purchase programme, the vigour of the recovery in CEE was something of a surprise. However, in spite of the boost from the global economy, growth rates varied widely within the region. Recent Central European member states are benefiting from closer integration with the eurozone. Economic growth will probably stabilise at an average of 3% and will be less dependent on foreign demand, making it more sustainable.

The Austrian economy's weakness over the last three years will continue in 2015, and a recovery is only expected in 2016, as consumption picks up as a result of the tax reforms that come into effect at the start of that year. Additional investment in housing construction by Bundesimmobiliengesellschaft (BIG), the federal property company, is also expected, which will stimulate the economy in 2017. As in preceding years, economic growth in 2015 is expected to be around 0.5%. This continuing weakness is attributable to both international and domestic factors. Household income is exposed to relatively high inflation, particularly as a result of the sharp increase in rents, the heavy burden of taxation in comparison with other countries, and weakness on the job market. The natural decline in the workforce as a result of an ageing population has been more than offset by immigration, and unemployment in 2015 is expected to be some 9.3%, as compared with 8.4% in 2014.

Business outlook

Although the market environment remains challenging, the HYPO NOE Group is holding its own as a dependable partner for businesses and the public sector in its core market. Following a solid first half, we expect to report sustainable and stable operating profits for 2015. But the high financial stability contribution and the newly introduced compulsory contributions to the national resolution fund and the deposit insurance fund will depress the final results. A major focus for the Gruppe Bank segment will be financing for corporate customers in our core market, as well as for regional and social infrastructure. Relationships with church bodies, interest groups and customers in the agricultural sector will be intensified with a view to building on past successes. Growth in these sectors is expected to be in line with the market average. The Group will maintain a sharp focus on its core target groups and regions, while taking risk requirements into account. Outside its core market, the Group's business model and risk optimisation is complemented by its activities in the Danube region, where it already has four representative offices. In the Landesbank segment, the emphasis is on extending the sales network, on ongoing optimisation of the quality of our products and advice, and on acquiring new customers. The current rates of customer and volume growth are above the market average. Attracting customer deposits will remain a major focus. The Leasing segment also anticipates continued growth in the second half after tendering for a wide range of projects on terms similar to rental agreements. The Other segment, where companies such as HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH (a provider of facility management services) form the final link in the Group's real estate services value chain, will continue its expansion in the second half of the year.

In 2015 the Group is again fully occupied with new accounting standards and upcoming regulatory changes. During the reporting period, the HYPO NOE Group further improved its sustainability rating, which is prepared by oekom research: it has now reached C- (in a range from D- to A), which is only one step lower than the best rating for the banking sector. Further improvements to the HYPO NOE Group's sustainability programme are planned for the future.

HYPO NOE Gruppe Bank's strong A/A-1 issuer rating was reaffirmed by rating agency Standard & Poor's (S&P) in the first half of the year, with a positive outlook based on the stability provided by the Group's sole owner, the state of Lower Austria. This puts the HYPO NOE Group among Austria's best-rated banks, and underlines the Bank's long-standing strengths.

The interim results, positive factors and solid equity base have put the HYPO NOE Group in an excellent position to carry on justifying its customers' trust, and to provide comprehensive project support to corporate, institutional and retail clients.

EVENTS AFTER THE REPORTING PERIOD

Negotiations on a medium-term solution to the Greek debt crisis extended beyond the reporting date. On 5 July 2015 a referendum was held in Greece on the reforms proposed by the country's creditors, and this resulted in a rejection of the austerity programme. Nevertheless on 13 July a compromise was agreed between the Greek government and the creditor countries and institutions in Brussels. Technical talks between the Greek government and the institutions on a third, EUR 86bn three-year rescue package for Greece began on 27 July. A Greek exit from the euro looks unlikely if the compromise deal remains in place. The HYPO NOE Group does not hold any Greek sovereign bonds.

A memorandum of understanding regarding ongoing legal developments surrounding wind-down bank HETA has been signed by the Free State of Bavaria and the Republic of Austria. Its purpose is to settle all the legal disputes between BayernLB and HETA, the Austrian government and Kärntner Landesholding. On 15 July 2015 a group of creditors led by Germany's Dexia Kommunalbank brought an action in respect of claims against HETA amounting to around EUR 1bn at the Frankfurt am Main Provincial Court. Since then another group of ten creditors has been set up. This includes Commerzbank and FMS Wertmanagement, the state "bad bank" established to wind down Germany's Hypo Real Estate Holding AG. The group aims to secure the redemption of bonds with a total face value of over EUR 2bn.

In July the Austrian Constitutional Court ruled on proceedings concerning the Hypo-Alpe-Adria Sanierungsgesetz (Act on Restructuring Measures for Hypo Alpe Adria Bank International AG). On 28 July 2015 the court published its verdict, whereby the Act is unconstitutional and is struck down in its entirety, together with the accompanying administrative order. The act and the order are no longer applicable. The distinction between different categories of subordinated creditors drawn by the Act, on the basis of the maturity date established by it, is unconstitutional. The court also ruled that imposition of a "haircut" only on one group of junior creditors, while liabilities to others remained in place, was unfounded and disproportionate. Moreover, letters of indemnity issued by a federal state may not retroactively be completely invalidated by fiat, as a one-off measure. However, the administrative ruling enacted by the Austrian Financial Market Authority on 1 March 2015, after the entry into effect of the Sanierungs- und Abwicklungsgesetz (Bank Recovery and Resolution Act), means that although the subordinated claims that would have been overturned are reinstated they are subject to the moratorium on repayments until 31 May 2016 imposed by administrative order. The Constitutional Court's argumentation implies, in theory, that in the event of the equal treatment of senior and junior creditors by the Carinthian state government in its capacity as guarantor, the latter would be confronted with higher total claims.

St. Pölten, 7 August 2015

The Management Board

Peter Harold
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

SEMI-ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE 2015

HYPO NOE GRUPPE

STATEMENT OF COMPREHENSIVE INCOME

Profit or loss (EUR '000)	Notes	H1 2015	H1 2014
Interest and similar income	3.1	294,279	297,838
of which income from investments accounted for using the equity method		*-421*	*-94*
Interest and similar expense	3.2	-228,652	-235,810
Net interest income		**65,627**	**62,028**
Credit provisions	3.3	991	-175
Net interest income after risk provisions		**66,618**	**61,853**
Fee and commission income		7,907	8,066
Fee and commission expense		-1,366	-1,262
Net fee and commission income	3.4	**6,541**	**6,804**
Net trading income	3.5	3,856	1,450
General administrative expenses	3.6	-67,429	-64,853
Net other operating income	3.7	22,230	7,398
Net gains or losses on available-for-sale financial assets	3.8	-21,098	103
Net gains or losses on financial assets designated at fair value through profit or loss	3.9	-36	68
Net gains or losses on hedges	3.10	-1,755	2,697
Net gains or losses on other financial investments	3.12	411	-87
Profit before tax		**9,338**	**15,433**
Income tax expense	3.13	-2,443	-3,846
Profit for the period		**6,895**	**11,587**
Non-controlling interests	3.14	-317	142
Profit attributable to owners of the parent		**6,578**	**11,729**

Other comprehensive income (EUR '000)	H1 2015	H1 2014
Profit attributable to owners of the parent	**6,578**	**11,729**
Items that will not be reclassified subsequently to profit or loss	**-**	**-**
Items that may be reclassified subsequently to profit or loss		
Other changes (before tax)	*-*	*8*
Change in available-for-sale financial instruments (before tax)	*-8,224*	*10,034*
Exchange differences on translating foreign operations accounted for using the equity method (before tax)	*-4*	*-25*
Change in deferred tax	*2,057*	*-2,502*
Total other comprehensive income	**-6,171**	**7,514**
Total comprehensive income attributable to owners of the parent	**407**	**19,243**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets (EUR '000)	Notes	30 Jun. 2015	31 Dec. 2014
Cash and balances at central banks	4.1	20,909	99,025
Loans and advances to banks	4.2	874,042	944,046
Loans and advances to customers	4.3	11,293,552	11,194,066
Risk provisions	4.4	-106,234	-108,562
Assets held for trading	4.5	570,151	652,995
Positive fair value of hedges (hedge accounting)	4.6	524,812	663,827
Available-for-sale financial assets	4.7	2,145,941	2,245,409
Financial assets designated at fair value through profit or loss	4.8	4,310	4,244
Investments accounted for using the equity method	4.9	26,449	27,105
Investment property	4.10	67,844	67,752
Intangible assets	4.11	1,173	1,352
Property, plant and equipment	4.11	79,800	80,913
Current tax assets	4.12	10,841	10,856
Deferred tax assets	4.12	3,803	2,417
Other assets	4.13	39,663	38,532
Non-current assets held for sale (IFRS 5)	4.14	-	2,983
Total assets		**15,557,056**	**15,926,960**

Equity and liabilities (EUR '000)	Notes	30 Jun. 2015	31 Dec. 2014
Deposits from banks	4.15	2,609,539	2,627,730
Deposits from customers	4.16	2,618,419	2,305,056
Debts evidenced by certificates	4.17	8,118,080	8,553,311
Liabilities held for trading	4.18	509,859	591,140
Negative fair value of hedges (hedge accounting)	4.19	739,881	877,867
Provisions	4.20	50,199	49,291
Current tax liabilities	4.21	8,878	10,753
Deferred tax liabilities	4.21	28,513	30,651
Other liabilities	4.22	94,824	104,376
Subordinated capital	4.23	207,412	206,059
Equity (including non-controlling interests)*	4.24	571,452	570,726
Equity attributable to owners of the parent		562,762	562,355
Non-controlling interests		8,690	8,371
Total equity and liabilities		**15,557,056**	**15,926,960**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 Jun. 2015, EUR '000	Balance at 1 Jan. 2015	Profit/loss for the year	Capital increase	Dividends paid	Changes in scope of consolidation	Other compre-hensive income	Balance at 30 Jun. 2015
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	287,115	6,578	-	-	-	-	293,693
IAS 19 reserve	-5,011	-	-	-	-	-	-5,011
Available-for-sale reserve	36,506	-	-	-	-	-6,168	30,338
Currency translation reserve	-60	-	-	-	-	-3	-63
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**562,355**	**6,578**	**-**	**-**	**-**	**-6,171**	**562,762**
Non-controlling interests	8,371	317	2	-	-	-	8,690
TOTAL EQUITY	**570,726**	**6,895**	**2**	**-**	**-**	**-6,171**	**571,452**

30 Jun. 2014, EUR '000	Balance at 1 Jan. 2014	Profit/loss for the year	Capital increase	Dividends paid	Changes in scope of consolidation	Other compre-hensive income	Balance at 30 Jun. 2014
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	329,439	11,729	-	-11,000	-	8	330,177
IAS 19 reserve	-4,651	-	-	-	-	-	-4,651
Available-for-sale reserve	-15,324	-	-	-	-	7,525	-7,799
Currency translation reserve	-15	-	-	-	-	-19	-34
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**553,254**	**11,729**	**-**	**-11,000**	**-**	**7,515**	**561,498**
Non-controlling interests	1,146	-142	-	-	7,014	-	8,019
TOTAL EQUITY	**554,400**	**11,587**	**-**	**-11,000**	**7,014**	**7,515**	**569,517**

Additional information is given in Note 4.24 Equity.

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

After-tax losses of EUR 1,941thsd (30 June 2014: losses of EUR 1,462thsd) on available-for-sale (AFS) financial instruments were reclassified from other comprehensive income to profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	30 Jun. 2015	31 Dec. 2014
Loss/profit for the year after tax (before non-controlling interests)	**6,895**	**-30,988**
Non-cash comprehensive income items		
Amortisation and depreciation or write-ups	24,735	76,037
Allocations to and reversals of provisions and risk provisions	3,240	14,595
Gains on disposal of financial assets and property, plant and equipment	439	796
Other adjustments	-39,765	120,143
Changes in assets and liabilities due to operating activities after adjustments for non-cash components		
Loans and advances to banks	70,635	-170,943
Loans and advances to customers	-213,023	19,476
Available-for-sale financial assets	66,900	-441,780
Other operating assets	-80,663	89,706
Liabilities to banks	-17,240	219,757
Deposits from customers	321,958	141,309
Debts evidenced by certificates	-301,210	67,009
Other operating liabilities	76,980	-41,156
Cash flows from operating activities	**-80,119**	**63,962**
Proceeds from sale of/redemption of:		
Other investments	3,734	3,000
Property, plant and equipment, intangible assets and investment property	68	1,248
Purchase of:		
Other investments	-	-357
Property, plant and equipment, intangible assets and investment property	-3,266	-8,068
Acquisition of subsidiaries	-	-623
Cash flows from investing activities	**535**	**-4,799**
Dividends paid	-	-11,000
Subordinated debt	-	-5,906
Cash flows from financing activities	**-**	**-16,906**
Effects of exchange rate changes on cash and cash equivalents	**1,468**	**159**

EUR '000	30 Jun. 2015	31 Dec. 2014
Cash and cash equivalents at end of previous period	**99,025**	**56,609**
Cash flows from operating activities	-80,119	63,962
Cash flows from investing activities	535	-4,799
Cash flows from financing activities	-	-16,906
Effects of exchange rate changes on cash and cash equivalents	1,468	159
Cash and cash equivalents at end of period	**20,909**	**99,025**
Payments for taxes, interest and dividends (included in cash flows from operating activities)		
Income taxes refunded/paid	-5,599	-11,193
Interest received	289,964	589,559
Interest paid	-224,238	-467,039
Dividends received	714	1,014

NOTES

TO THE SEMI-ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE 2015

HYPO NOE
GRUPPE

1. ACCOUNTING AND MEASUREMENT POLICIES

The interim financial statements of the HYPO NOE Gruppe Bank AG Group (hereafter "Hypo NOE Group") as at 30 June 2015 were drawn up in accordance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) issued by the International Accounting Standards Board (IASB), as well as the interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Committee (IFRIC).

The consolidated financial statements have been prepared in accordance with the IFRSs and IASs standards and interpretations thereof adopted and published by the European Union, and applicable to the business activities of the HYPO NOE Group.

IAS 34 was applied to preparation of this interim report. Essentially the same accounting policies were applied to the interim report of the HYPO NOE Group as on 31 December 2014, taking account of new standards which entered into effect on 1 January 2015.

The interim financial statements do not contain all of the information required for full annual financial statements, and should therefore be read in conjunction with the consolidated annual financial statements as at 31 December 2014. The semi-annual financial report was neither audited nor reviewed by independent auditors.

2. CHANGES IN THE SCOPE OF CONSOLIDATION

Disposals

On 20 April 2015 the Group sold its 51% interest in first facility d.o.o, which had been accounted for using the equity method. The gain on disposal is disclosed under income from investments accounted for using the equity method, which forms part of interest and similar income (see Note 3.1 Interest and similar income).

Changes of name

Hart & Haring Liegenschaftsentwicklungs GmbH, an investment accounted for using the equity method, was renamed as Haring Liegenschaftsentwicklungs GmbH on 29 June 2015.

3. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

3.1 Interest and similar income

3.1.A INTEREST AND SIMILAR INCOME

EUR '000	H1 2015	H1 2014
Interest income from:		
Cash and balances at central banks	3	13
Loans and advances to banks	1,391	5,248
Loans and advances to customers	102,081	110,949
Bonds	29,144	31,579
Hedges (hedge accounting)	94,636	85,758
Other interest income	55,296	53,673
of which income from investments accounted for using the equity method	*-421*	*-94*
of which income from investment property	*529*	*573*
rental income	*1,506*	*1,835*
depreciation	*-977*	*-1,262*
Current income from:		
Leases	10,721	10,566
Shares and other variable-income securities	42	46
Other investments	965	6
Total	**294,279**	**297,838**

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

EUR '000	H1 2015	H1 2014
Interest and similar income from:		
Loans and receivables (LAR)	104,870	118,731
Available-for-sale (AFS) assets	29,959	31,530
Assets measured using the fair value option (FVO)	102	102
Assets held for trading (HFT)	49,103	47,708
Impaired loans and advances (unwinding)	1,821	1,612
Hedges (hedge accounting)	94,636	85,758
Interest income attributable to other periods	155	73
Income from investments accounted for using the equity method	-421	-94
Income from investment property:	529	573
rental income	*1,506*	*1,835*
depreciation	*-977*	*-1,262*
Current lease income	10,721	10,566
Current origination and commitment fees	2,804	1,279
Total	**294,279**	**297,838**

3.2 Interest and similar expense

3.2.A INTEREST AND SIMILAR EXPENSE

EUR '000	H1 2015	H1 2014
Interest expense on:		
Liabilities to central banks	-46	-59
Deposits from banks	-6,274	-8,306
Deposits from customers	-12,153	-14,072
Debts evidenced by certificates	-101,572	-104,246
Subordinated capital	-1,086	-1,887
Hedges (hedge accounting)	-59,930	-57,652
Other interest expense	-47,591	-49,588
Total	**-228,652**	**-235,810**

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

EUR '000	H1 2015	H1 2014
Interest expense on:		
Financial liabilities measured at amortised cost (LAC)	-121,347	-130,619
Financial liabilities held for trading (HFT)	-47,375	-47,539
Hedges (hedge accounting)	-59,930	-57,652
Total	**-228,652**	**-235,810**

3.3 Credit risk provisions

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

EUR '000	H1 2015	H1 2014
Allocations to	**-12,205**	**-10,490**
Individual impairment allowances	-10,654	-8,482
Collective impairment allowances	-1,523	-1,899
Other credit risk provisions	-27	-109
Reversals of	**9,005**	**7,499**
Individual impairment allowances	7,224	6,334
Collective impairment allowances	1,763	1,163
Other credit risk provisions	19	3
Receipts from impaired assets	**4,272**	**2,910**
Direct write-offs	**-81**	**-93**
Total	**991**	**-175**

3.4 Net fee and commission income

EUR '000	H1 2015	H1 2014
Fee and commission income	**7,907**	**8,066**
Loans and advances	850	1,036
Securities and custody account business	2,317	2,142
Payment transactions	2,786	2,783
Foreign exchange, foreign notes and coins, and precious metals	153	138
Other services	1,403	1,596
Diversification	395	264
Other fee and commission income	3	107
Fee and commission expense	**-1,366**	**-1,262**
Loans and advances	-31	-33
Securities and custody account business	-553	-538
Payment transactions	-577	-496
Other services	-9	-12
Diversification	-196	-183
Total	**6,541**	**6,804**

3.5 Net trading income

EUR '000	H1 2015	H1 2014
Interest rate transactions	5,131	1,008
Foreign exchange transactions	-1,275	276
Other transactions	-	166
Total	**3,856**	**1,450**

3.6 General administrative expenses

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

EUR '000	H1 2015	H1 2014
Staff costs	-34,759	-35,603
Other administrative expenses	-29,602	-26,045
Depreciation, amortisation and impairment	-3,069	-3,206
Total	**-67,429**	**-64,853**

3.6.1 STAFF COSTS

EUR '000	H1 2015	H1 2014
Wages and salaries	-26,983	-27,587
of which phantom-share-based cash incentives	*-256*	*-283*
Social security costs	-5,678	-5,594
Cost of voluntary employee benefits	-599	-661
Retirement benefit costs	-800	-879
Termination benefit costs	-699	-882
of which expenses for provident fund	*-287*	*-259*
Total	**-34,759**	**-35,603**

	H1 2015	H1 2014
Average number of employees (incl. staff on parental leave)	914	911

3.6.2 OTHER ADMINISTRATIVE EXPENSES

EUR '000	H1 2015	H1 2014
Premises	-2,909	-3,362
Office and communication expenses	-720	-690
IT expenses	-4,705	-4,359
Legal and consultancy costs	-3,190	-2,723
Advertising and entertainment costs	-2,949	-2,972
Cost of transfers of liability	-325	-552
Other administrative expenses	-14,804	-11,387
of which financial stability contribution (bank tax)	*-7,252*	*-6,597*
of which contributions to deposit insurance fund and resolution fund	*-3,773*	-
Total	**-29,602**	**-26,045**

The significant increase in other administrative expenses was due to newly introduced statutory contributions to a deposit insurance fund and a resolution fund amounting to EUR 3,773thsd and an increase in the statutory financial stability contribution to EUR 7,252thsd (H1 2014: 6,597thsd). The financial stability contribution for the 2014 financial year was EUR 12,937thsd.

3.6.3 DEPRECIATION, AMORTISATION AND IMPAIRMENT

EUR '000	H1 2015	H1 2014
Depreciation and amortisation	**-3,069**	**-3,206**
Intangible assets	-332	-367
Buildings used by Group companies	-903	-901
Equipment, fixtures and furnishings (incl. low value assets)	-1,834	-1,938
Total	**-3,069**	**-3,206**

3.7 Net other operating income

EUR '000	H1 2015	H1 2014
Other rental income	**157**	**66**
Gains/losses on	**49**	**79**
disposal of intangible assets, and property, plant and equipment	49	79
Net gains or losses on recognition and reversal of provisions	**91**	**36**
Profit from acquisitions of companies at below fair value	**-**	**274**
Sundry other operating income	**21,933**	**6,943**
Sundry other operating income	25,507	12,347
Sundry other operating expenses	-3,574	-5,404
Total	**22,230**	**7,398**

Sundry other operating income/expenses includes gains on debt repurchases of EUR 9,814thsd as well as net gains of EUR 2,511thsd (2014: net loss of EUR 809thsd) on currency translation (see also Note 3.11 Net gains and losses on financial assets and liabilities).

It also includes EUR 3,034thsd (2014: EUR 3,865thsd) in administrative and intermediation fees.

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

EUR '000		H1 2015	H1 2014
Income from financial assets		**2,021**	**2,212**
Gains on disposal	3.11	2,021	2,212
Expenses arising from financial assets		**-23,119**	**-2,109**
Losses on disposal	3.11	-2,508	-2,109
Depreciation and amortisation		-20,611	-
Total		**-21,098**	**103**

Impairment losses sub include further impairment losses that needed to be recognised following remeasurement of HETA Asset Resolution AG bonds during the reporting period.

3.9 Net gains or losses on financial assets designated at fair value through profit or loss

EUR '000	H1 2015	H1 2014
Net gains or losses on financial assets	**-36**	**68**
Bonds	-36	68
Total	**-36**	**68**

3.10 Net gains or losses on hedges

EUR '000	H1 2015	H1 2014
Hedge accounting	**-1,755**	**2,697**
Net gains or losses on hedged items	-10,644	39,182
Net gains or losses on hedging instruments	8,889	-36,485
Total	**-1,755**	**2,697**

3.11 Net gains or losses on financial assets and liabilities

EUR '000		H1 2015	H1 2014
Net realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss		**-487**	**102**
Available-for-sale financial assets	3.8	-487	103
Loans and receivables (incl. finance leases)	3.12	-	-1
Net gains or losses on financial assets and liabilities held for trading	3.5	**3,856**	**1,450**
Interest rate instruments and related derivatives		5,131	1,008
Foreign exchange trading		-1,275	276
Other (incl. hybrid derivatives)		-	166
Gains or losses on financial assets and liabilities designated as fair value through profit or loss	3.9	**-36**	**68**
Gains or losses on hedge accounting	3.10	**-1,755**	**2,697**
Net gains on currency translation	3.7	**2,511**	**-809**
Total		**4,089**	**3,508**

3.12 Net gains or losses on other financial investments

EUR '000	H1 2015	H1 2014
Gains or losses on disposal of receivables and promissory notes	**-**	**-1**
Investment property	**402**	**-283**
Let investment property	424	-222
Vacant investment property	-22	-61
Net gains or losses on other financial investments	**9**	**197**
Other income from other financial assets	9	197
Total	**411**	**-87**

3.13 Income tax expense

EUR '000	H1 2015	H1 2014
Current income tax	-3,910	-2,830
Deferred income tax	1,467	-1,016
Total	**-2,443**	**-3,846**

EUR '000	H1 2015	H1 2014
Deferred tax recognised in other comprehensive income		
Items that may be reclassified subsequently to profit or loss	**2,057**	**-2,502**
Available-for-sale (AFS) financial instruments	2,056	-2,508
Currency translation reserve	1	6
Total	**2,057**	**-2,502**

3.14 Non-controlling interests

EUR '000	H1 2015	H1 2014
FORIS Grundstückvermietungs Gesellschaft m.b.H.	-27	-12
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-8	-225
LITUS Grundstückvermietungs Gesellschaft m.b.H.	-33	-59
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-19	-23
Adoria Grundstückvermietungs Gesellschaft m.b.H.	-7	-15
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-12	57
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	-76	27
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	-92	321
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-45	35
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	-2	4
Neustift-am-Walde 32 Immobilienentwicklung GmbH	-1	3
Haymogasse 102 Immobilienentwicklung GmbH	-2	19
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	7	10
Total	**-317**	**142**

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION

4.1 Cash and balances at central banks

EUR '000	30 Jun. 2015	31 Dec. 2014
Cash on hand	12,862	14,316
Balances at central banks	8,047	84,709
Total	**20,909**	**99,025**

4.2 Loans and advances to banks

EUR '000	30 Jun. 2015	31 Dec. 2014
Domestic banks	235,906	244,571
Foreign banks		
Central and Eastern Europe (CEE)	465	757
Rest of the world	637,671	698,718
Total	**874,042**	**944,046**

4.3 Loans and advances to customers

4.3.1 CUSTOMER GROUP ANALYSIS

EUR '000	30 Jun. 2015	31 Dec. 2014
Public sector customers	5,479,388	5,449,024
Business customers	1,944,848	1,832,533
Housing developers	1,536,115	1,526,537
Retail customers	2,268,878	2,319,423
Professionals	64,323	66,549
Total	**11,293,552**	**11,194,066**

4.3.2 GEOGRAPHICAL ANALYSIS

EUR '000	30 Jun. 2015	31 Dec. 2014
Domestic customers	9,957,478	9,910,611
Foreign customers		
Central and Eastern Europe (CEE)	531,635	509,806
Rest of the world	804,439	773,649
Total	**11,293,552**	**11,194,066**

4.4 Risk provisions and credit provisions

4.4.1 ANALYSIS OF RISK PROVISIONS AND CREDIT RISK PROVISIONS BY CUSTOMER GROUPS

EUR '000	As at 1 Jan. 2015	Exchange differences	Allocations	Utilisation	Reversals	Unwinding	Other changes	As at 30 Jun. 2015
Risk provisions for customers: individual impairment allowances	**-103,365**	**-**	**-10,654**	**3,697**	**7,224**	**1,820**	**-**	**-101,277**
Public sector customers	-4,661	-	-708	-	-	16	-	-5,353
Business customers	-67,271	-	-5,418	3,388	4,829	1,409	559	-62,504
Housing developers	-79	-	-4	-	-	4	-	-79
Retail customers	-29,007	-	-4,390	222	2,282	358	-791	-31,325
Professionals	-2,347	-	-135	87	113	33	232	-2,017
Risk provisions for customers: collective impairment allowances	**-5,197**	**-**	**-1,523**	**-**	**1,763**	**-**	**-**	**-4,957**
Subtotal: risk provisions for customers	**-108,562**	**-**	**-12,177**	**3,697**	**8,987**	**1,820**	**-**	**-106,234**
Credit risk provisions	-3,469	-	-27	-	19	-	-	-3,477
Total	**-112,031**	**-**	**-12,204**	**3,697**	**9,006**	**1,820**	**-**	**-109,711**

EUR '000	As at 1 Jan. 2014	Exchange differences	Allocations	Utilisation	Reversals	Unwinding	Other changes	As at 31 Dec. 2014
Risk provisions for customers: individual impairment allowances	**-106,361**	**-35**	**-27,601**	**11,270**	**15,154**	**3,225**	**983**	**-103,365**
Public sector customers	-10,331	-	-268	-	-	73	5,865	-4,661
Business customers	-62,703	-35	-23,194	10,026	11,077	2,359	-4,801	-67,271
Housing developers	-	-	-83	-	-	4	-	-79
Retail customers	-31,222	-	-3,709	1,242	3,800	706	177	-29,007
Professionals	-2,105	-	-347	2	277	83	-257	-2,347
Risk provisions for customers: collective impairment allowances	**-4,795**	**-**	**-2,512**	**-**	**2,110**	**-**	**-**	**-5,197**
Subtotal: risk provisions for customers	**-111,156**	**-35**	**-30,113**	**11,270**	**17,264**	**3,225**	**983**	**-108,562**
Credit risk provisions	-4,690	-	-260	979	502	-	-	-3,469
Total	**-115,846**	**-35**	**-30,373**	**12,249**	**17,766**	**3,225**	**983**	**-112,031**

4.4.2 GEOGRAPHICAL ANALYSIS OF RISK PROVISIONS

EUR '000	30 Jun. 2015	31 Dec. 2014
Domestic	-74,443	-78,809
Foreign		
Central and Eastern Europe (CEE)	-14,942	-14,978
Rest of the world	-16,849	-14,775
Total risk provisions	**-106,234**	**-108,562**

4.5 Assets held for trading

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

EUR '000	30 Jun. 2015	31 Dec. 2014
Positive fair value of derivative financial instruments (banking book)		
Interest rate derivatives	558,257	648,003
Foreign exchange derivatives	9,567	4,992
Other assets held for trading	2,327	-
Total	**570,151**	**652,995**

4.6 Positive fair value of hedges (hedge accounting)

The positive fair values of hedges are disclosed separately as an asset in the consolidated statement of financial position, provided that they qualify for hedge accounting under IAS 39.

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

EUR '000	30 Jun. 2015	31 Dec. 2014
Assets	**4,193**	**3,591**
Loans and advances to banks	822	1,565
Loans and advances to customers	1,804	1,184
Financial assets	1,567	842
Liabilities	**520,619**	**660,236**
Deposits from banks	1,503	2,208
Deposits from customers	40,347	46,284
Debts evidenced by certificates	478,769	611,744
Total	**524,812**	**663,827**

4.7 Available-for-sale financial assets

EUR '000	30 Jun. 2015	31 Dec. 2014
Other equity instruments	3,936	3,940
Bonds	2,138,807	2,237,566
Interests in non-consolidated subsidiaries (over 50%)	161	162
Interests in associates (20-50%)	477	477
Other investments	2,560	3,264
Total	**2,145,941**	**2,245,409**

4.8 Financial assets designated at fair value through profit or loss

EUR '000	30 Jun. 2015	31 Dec. 2014
Bonds	4,310	4,244
Total	**4,310**	**4,244**

4.9 Investments accounted for using the equity method

EUR '000	30 Jun. 2015	31 Dec. 2014
Banks	1,920	1,828
Non-banks	24,529	25,277
Total	**26,449**	**27,105**

4.10 Investment property

EUR '000	30 Jun. 2015	31 Dec. 2014
Investment property	67,844	67,752

4.11 Intangible assets, and property, plant and equipment

EUR '000	30 Jun. 2015	31 Dec. 2014
Intangible assets		
Software	745	924
Goodwill	428	428
Total intangible assets	**1,173**	**1,352**
Property, plant and equipment		
Land and buildings	68,098	68,342
IT equipment	396	439
Equipment, fixtures and furnishings	11,235	12,052
Other property, plant and equipment	71	80
Total property, plant and equipment	**79,800**	**80,913**

The carrying amount of land as at 30 June 2015 was EUR 17,287thsd (2014: EUR 17,287thsd).

4.12 Tax assets

EUR '000	30 Jun. 2015	31 Dec. 2014
Current tax assets	10,841	10,856
Deferred tax assets	3,803	2,417
Total	**14,644**	**13,273**

No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 17,516thsd (31 Dec. 2014: EUR 18,898thsd).

4.13 Other assets

This item principally consists of accruals and deferrals and other non-bank receivables (e.g. trade receivables and amounts due from the tax authorities in respect of other taxes).

EUR '000	30 Jun. 2015	31 Dec. 2014
Accruals and deferrals	1,120	1,547
Other receivables and assets	38,543	36,985
of which value added tax (VAT) and other tax credits (other than income tax)	*9,520*	*8,658*
of which property classified as inventory	*14,544*	*13,916*
of which trade receivables	*8,172*	*9,379*
Total	**39,663**	**38,532**

4.14 Non-current assets held for sale (IFRS 5)

EUR '000	30 Jun. 2015	31 Dec. 2014
Non-current assets held for sale (IFRS 5)	-	2,983
Total	**-**	**2,983**

4.15 Deposits from banks

EUR '000	30 Jun. 2015	31 Dec. 2014
Domestic banks	1,059,591	884,506
Foreign banks		
Central and Eastern Europe (CEE)	76,002	78,903
Rest of the world	1,473,946	1,664,321
Total	**2,609,539**	**2,627,730**

The deposits from banks include sale and repurchase agreements entered into by the Group.

Repurchase agreements entered into as a transfer

The repurchase agreements were of the type described by AG51(a) IAS 39, in that the assets sold under them were loaned. The Group, as the transferer, retained substantially all the risks and rewards of ownership.

These transactions were largely tri-party repos and collateralised loans from the ECB and the OeNB (Austrian National Bank).

EUR '000	30 Jun. 2015	31 Dec. 2014
Liabilities to banks under repo agreements	775,000	770,000

4.16 Deposits from customers

4.16.1 CUSTOMER GROUP ANALYSIS

EUR '000	30 Jun. 2015	31 Dec. 2014
Savings deposits	**844,369**	**854,071**
Demand and time deposits	**1,774,050**	**1,450,985**
Public sector customers	442,340	214,697
Business customers	923,783	848,615
Housing developers	40,636	40,263
Retail customers	322,787	309,162
Professionals	44,504	38,248
Total	**2,618,419**	**2,305,056**

4.16.2 GEOGRAPHICAL ANALYSIS

EUR '000	30 Jun. 2015	31 Dec. 2014
Domestic customers	2,042,358	1,746,874
Foreign customers		
Central and Eastern Europe (CEE)	17,226	14,984
Rest of the world	558,835	543,198
Total	**2,618,419**	**2,305,056**

4.17 Debts evidenced by certificates

EUR '000	30 Jun. 2015	31 Dec. 2014
Covered and municipal bonds	3,780,730	3,836,026
Other bonds	4,337,080	4,717,027
Profit-sharing certificates	270	258
Total	**8,118,080**	**8,553,311**

Debts evidenced by certificates included new issues, floated during the reporting period, of EUR 873,836thsd (31 Dec. 2014: EUR 1,084,583thsd). The Group repurchased issued debt amounting to EUR 840,567thsd.

4.18 Liabilities held for trading

The negative fair value of derivatives not qualifying for hedge accounting is reported here.

EUR '000	30 Jun. 2015	31 Dec. 2014
Negative fair value of derivative financial instruments (banking book)		
Interest rate derivatives	494,644	581,775
Foreign exchange derivatives	15,215	9,365
Total	**509,859**	**591,140**

4.19 Negative fair value of hedges (hedge accounting)

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

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

EUR '000	30 Jun. 2015	31 Dec. 2014
Assets	**719,914**	**862,200**
Loans and advances to customers	569,796	689,351
Available-for-sale financial assets	150,118	172,849
Liabilities	**19,967**	**15,667**
Deposits from banks	113	387
Deposits from customers	-	427
Debts evidenced by certificates	19,854	14,853
Total	**739,881**	**877,867**

4.20 Provisions

EUR '000	30 Jun. 2015	31 Dec. 2014
Employee benefit provisions	**38,303**	**38,342**
Provisions for pensions	24,631	25,172
Provisions for termination benefits	11,965	11,553
Provisions for jubilee benefits	1,707	1,617
Credit provisions	**3,477**	**3,469**
Other provisions	**8,419**	**7,480**
Total	**50,199**	**49,291**

4.21 Tax liabilities

EUR '000	30 Jun. 2015	31 Dec. 2014
Current tax liabilities	8,878	10,753
Deferred tax liabilities	28,513	30,651
Total	**37,391**	**41,404**

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

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

4.22 Other liabilities

EUR '000	30 Jun. 2015	31 Dec. 2014
Accruals and deferrals	15,670	13,724
Sundry other liabilities	79,154	90,652
of which trade payables	*23,878*	*24,771*
of which outstanding invoices	*25,508*	*36,752*
of which VAT and other tax liabilities (other than income tax)	*3,623*	*5,520*
of which legal and consultancy costs	*1,000*	*2,916*
of which phantom-share-based cash incentives	*1,862*	*1,606*
Total	**94,824**	**104,376**

4.23 Subordinated capital

EUR '000	30 Jun. 2015	31 Dec. 2014
Subordinated capital	207,412	206,059
of which subordinated loans	*1,453*	*1,453*

4.24 Equity

EUR '000	30 Jun. 2015	31 Dec. 2014
Share capital	51,981	51,981
Capital reserves	191,824	191,824
of which appropriated reserve	*94,624*	*94,624*
of which unappropriated reserve	*97,200*	*97,200*
Revaluation surplus	25,327	31,495
Retained earnings	293,630	287,055
Parent shareholders' equity	**562,762**	**562,355**
Non-controlling interests	8,690	8,371
Total	**571,452**	**570,726**

4.25 Consolidated capital resources and regulatory capital adequacy requirements

Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR) and the Capital Requirements Directive IV (CRD IV), which came into effect in 2014, require the calculation of figures for consolidated capital resources and the consolidated regulatory capital adequacy requirements in accordance with IFRS, as well as with the regulatory scope of consolidation.

The capital resources of the HYPO NOE Group, calculated in accordance with the CRR and the CRD IV, are broken down as follows:

EUR '000	CRR/CRD IV 30 Jun. 2015	CRR/CRD IV 31 Dec. 2014
Share capital, incl. premiums from 2014	136,546	136,546
Reserves, differences and non-controlling interests	402,152	408,441
Prudential filter – adjustments based on the requirements for prudential measurement	-4,516	-5,057
Other adjustments to hard core capital	-15,190	-31,485
Intangible assets	-576	-742
Hard core capital	518,416	507,704
Additional core capital	-	-
Core capital (tier 1 capital)	**518,416**	**507,704**
Deductions related to holdings pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible core capital	**518,416**	**507,704**
Eligible subordinated debt issued by the Group's parent	66,873	81,742
Eligible subordinated debt issued by subsidiaries (incl. grandfathering)	20,017	25,312
Supplementary capital (tier 2 capital)	**86,890**	**107,053**
Deductions related to holdings pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible supplementary capital (after deductions)	**86,890**	**107,053**
Total eligible core capital	**605,306**	**614,757**
Capital requirement	**309,236**	**331,171**
Surplus capital	**296,070**	**283,586**
Coverage ratio (%)	195.74%	185.63%
Core capital ratio in accordance with Article 92(2)(b) CRR	13.41%	12.26%
Equity ratio in accordance with Article 92(2)(c) CRR	15.66%	14.85%

Movements in the risk-weighted assessment base and the resultant capital requirements were as follows:

EUR '000	CRR/CRD IV 30 Jun. 2015	CRR/CRD IV 31 Dec. 2014
Risk-weighted assessment base for credit risk	3,436,654	3,701,558
of which 8% minimum capital requirement	274,932	296,125
Capital requirement for open currency positions	-	-
Capital requirement for operational risk	23,262	22,986
Capital requirement for CVA	11,042	12,059
Total capital requirement	**309,236**	**331,171**

5. SEGMENT INFORMATION

All changes in the scope of consolidation are reported in Note 2 Changes in the scope of consolidation.

5.1 Business segment information

5.1.1 SEGMENT PROFIT OR LOSS BEFORE TAX

H1 2015, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Interest and similar income	267,326	29,400	11,493	845	-14,785	294,279
of which income from investments accounted for using the equity method	*-719*	*-*	*63*	*235*	*-*	*-421*
Interest and similar expense	-223,435	-9,811	-9,200	-991	14,785	-228,652
Credit risk provisions	97	919	-	-25	-	991
Net interest income after risk provisions	**43,988**	**20,508**	**2,293**	**-171**	**-**	**66,618**
Net fee and commission income	418	6,177	-39	-15	-	6,541
Net trading income	3,897	-41	-	-	-	3,856
General administrative expenses	-38,120	-25,825	-2,200	-8,781	7,497	-67,429
Net other operating income	18,791	1,151	1,898	7,169	-6,779	22,230
Net gains or losses on financial assets	-18,777	-2,361	-	4	-	-21,134
Net gains or losses on hedges	-1,292	-463	-	-	-	-1,755
Net gains or losses on other financial investments	-	-	453	676	-718	411
Profit/loss before tax	**8,905**	**-854**	**2,405**	**-1,118**	**-**	**9,338**
Income tax expense						-2,443
Profit for the period						**6,895**
Non-controlling interests						-317
Profit attributable to owners of the parent						**6,578**

Gruppe Bank

The Gruppe Bank segment reported a year-on-year rise in net interest income in the first half, and markedly higher net interest income after risk provisions, due to reversals of credit provisions. Earnings were also boosted by lower staff costs and high net other operating income, in particular as a result of debt repurchases. Results were impacted by further impairment losses on HETA bonds as well as increased general administrative expenses due to first-time payment of contributions to the deposit insurance fund.

Landesbank

In contrast to the first half of 2014, the Landesbank segment reported a loss in the reporting period, despite higher income from its core business (net interest income and net fee and commission income). This was primarily due to impairment losses recognised on a HETA bond. The reduction in credit risk provisions was significantly lower than in the first half of the previous year, and general administrative expenses increased.

Leasing

In the first half 2015 the Leasing segment maintained its focus on providing project-based real estate lease financing to the public sector.

The level of interest rates and typical earnings for leasing business, arising from handover and final settlement of leasing contracts, continue to have significant impact on earnings.

Other

The main reason behind the first-half loss recorded in the Other segment was lower revenue at HYPO NOE First Facility GmbH. The management has implemented measures to correct this. The disposal and resulting removal from the scope of consolidation of the Group's holding in first facility d.o.o, Belgrade, which had been accounted for using the equity method, had a minor positive effect on earnings. Real estate project companies in the segment contributed negative earnings as a result of project delays and start-up losses.

Consolidation

The adjustments on consolidation result from the elimination of intra-Group expenses and revenue. The remaining unadjusted amounts, recognised in consolidated profit or loss, reflect the consolidation of intra-group dividends. No intra-group dividends were paid during the half-year ended 30 June 2015.

H1 2014, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Interest and similar income	270,693	31,732	11,033	766	-16,386	297,838
of which income from investments accounted for using the equity method	*-20*	*-*	*-96*	*23*	*-*	*-94*
Interest and similar expense	-228,427	-12,548	-8,472	-1,119	14,755	-235,810
Credit risk provisions	-4,222	4,075	-	-28	-	-175
Net interest income after risk provisions	**38,044**	**23,259**	**2,561**	**-381**	**-1,631**	**61,853**
Net fee and commission income	1,660	5,159	-15	-	-	6,804
Net trading income	1,270	180	-	-	-	1,450
General administrative expenses	-35,540	-24,740	-2,062	-8,956	6,445	-64,853
Net other operating income	3,696	890	707	8,029	-5,924	7,398
Net gains or losses on financial assets	718	-547	-	-	-	171
Net gains or losses on hedges	2,575	123	-	-	-	2,697
Net gains or losses on other financial investments	-1	-110	-37	581	-521	-87
Profit/loss before tax	**12,422**	**4,215**	**1,154**	**-727**	**-1,631**	**15,433**
Income tax expense						-3,846
Profit for the period						**11,587**
Non-controlling interests						142
Profit attributable to owners of the parent						**11,729**

5.1.2 SEGMENT ASSETS AND LIABILITIES

30 Jun. 2015, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	1,809	19,094	1	5	-	20,909
Loans and advances to banks	1,333,562	47,915	87,705	10,160	-605,300	874,042
Loans and advances to customers	9,050,609	2,130,456	2,138,461	1,305	-2,027,279	11,293,552
Risk provisions	-43,398	-60,510	-2,265	-61	-	-106,234
Assets held for trading	570,151	346	-	-	-346	570,151
Positive fair value of hedges (hedge accounting)	542,620	29,725	-	-	-47,533	524,812
Available-for-sale financial assets	2,123,078	343,056	7,320	170	-327,683	2,145,941
Financial assets designated at fair value through profit or loss	4,310	-	-	-	-	4,310
Investments accounted for using the equity method	21,907	-	2,983	1,559	-	26,449
Investment property	-	-	6,909	60,935	-	67,844
Intangible assets	468	82	26	597	-	1,173
Property, plant and equipment	6,290	7,231	596	65,683	-	79,800
Tax assets	10,841	2,721	343	739	-	14,644
Other assets	6,930	3,115	50,104	21,109	-41,595	39,663
Total assets	**13,629,177**	**2,523,231**	**2,292,183**	**162,201**	**-3,049,736**	**15,557,056**
Equity and liabilities						
Deposits from banks	2,469,272	475,393	2,075,485	126,991	-2,537,602	2,609,539
Deposits from customers	1,263,116	1,429,859	22,615	1,023	-98,194	2,618,419
Debts evidenced by certificates	7,858,996	414,950	270	-	-156,136	8,118,080
Liabilities held for trading	509,869	336	-	-	-346	509,859
Negative fair value of hedges (hedge accounting)	760,771	26,643	-	-	-47,533	739,881
Provisions	37,064	11,375	595	1,165	-	50,199
Tax liabilities	16,658	1	18,378	2,354	-	37,391
Other liabilities	27,259	14,576	43,668	6,256	3,065	94,824
Subordinated capital	195,017	50,941	2,907	-	-41,453	207,412
Equity (incl. non-controlling interests)	491,155	99,157	128,265	24,412	-171,537	571,452
Equity attributable to owners of the parent	491,155	99,157	120,057	23,930	-171,537	562,762
Non-controlling interests	-	-	8,208	482	-	8,690
Total equity and liabilities	**13,629,177**	**2,523,231**	**2,292,183**	**162,201**	**-3,049,736**	**15,557,056**

31 Dec. 2014, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consolidation	Total
Assets						
Cash and balances at central banks	71,305	27,713	-	7	-	99,025
Loans and advances to banks	1,352,360	71,945	79,473	10,012	-569,744	944,046
Loans and advances to customers	9,021,937	2,043,470	2,007,847	1,496	-1,880,684	11,194,066
Risk provisions	-46,317	-61,409	-790	-45	-1	-108,562
Assets held for trading	652,995	59	-	-	-59	652,995
Positive fair value of hedges (hedge accounting)	684,262	38,019	-	-	-58,454	663,827
Available-for-sale financial assets	2,215,789	349,401	7,308	181	-327,270	2,245,409
Financial assets designated at fair value through profit or loss	4,244	-	-	-	-	4,244
Investments accounted for using the equity method	22,851	-	2,920	1,334	-	27,105
Investment property	-	-	7,033	60,719	-	67,752
Intangible assets	650	54	38	610	-	1,352
Property, plant and equipment	6,693	7,646	636	65,938	-	80,913
Tax assets	10,841	1,507	288	637	-	13,273
Other assets	12,355	4,308	48,587	19,382	-43,116	41,515
Total assets	**14,009,965**	**2,482,713**	**2,153,340**	**160,271**	**-2,879,328**	**15,926,960**
Equity and liabilities						
Deposits from banks	2,513,322	422,138	1,928,877	125,107	-2,361,714	2,627,730
Deposits from customers	993,992	1,382,772	17,539	1,008	-90,255	2,305,056
Debts evidenced by certificates	8,237,732	471,488	258	-	-156,167	8,553,311
Liabilities held for trading	591,191	8	-	-	-59	591,140
Negative fair value of hedges (hedge accounting)	903,993	32,328	-	-	-58,454	877,867
Provisions	36,544	11,064	564	1,119	-	49,291
Tax liabilities	20,948	-195	18,086	2,565	-	41,404
Other liabilities	26,958	11,894	59,637	6,010	-123	104,376
Subordinated capital	193,910	50,696	2,907	-	-41,453	206,059
Equity (incl. non-controlling interests)	491,375	100,520	125,472	24,462	-171,103	570,726
Equity attributable to owners of the parent	491,375	100,520	117,582	23,981	-171,103	562,355
Non-controlling interests	-	-	7,890	481	-	8,371
Total equity and liabilities	**14,009,965**	**2,482,713**	**2,153,340**	**160,271**	**-2,879,328**	**15,926,960**

5.2 Geographical information

The table below breaks down the main balance sheet items into domestic and foreign business.

	30 Jun. 2015		31 Dec. 2014	
EUR '000	Domestic	Foreign	Domestic	Foreign
Loans and advances to banks	235,906	638,136	244,571	699,475
Loans and advances to customers	9,957,478	1,336,074	9,910,611	1,283,455
Available-for-sale financial assets	683,541	1,462,400	676,476	1,568,933
Financial assets designated at fair value through profit or loss	4,310	-	4,244	-
Deposits from banks	1,059,591	1,549,948	884,506	1,743,224
Deposits from customers	2,042,358	576,061	1,746,874	558,182
Debts evidenced by certificates	2,941,751	5,176,329	2,994,451	5,558,860

In this breakdown, debts evidenced by certificates that relate to listed securities are presented by country of issue.

6. SUPPLEMENTARY INFORMATION

The interim financial statements do not contain all of the information required for full annual financial statements, and should therefore be read in conjunction with the consolidated annual financial statements for the year ended 31 December 2014.

6.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13

Disclosures regarding the nature and extent of the risks associated with financial instruments, additional sensitivity analyses and other disclosures form part of the risk report contained in the operational and financial review.

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

6.1.1 FAIR VALUE

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction.

EUR '000	30 Jun. 2015 Fair value	30 Jun. 2015 Carrying amount	31 Dec. 2014 Fair value	31 Dec. 2014 Carrying amount
Assets				
Loans and advances to banks	863,726	874,042	939,533	944,046
Loans and advances to customers[1]	11,152,918	11,192,275	11,254,946	11,090,701
Assets held for trading	570,151	570,151	652,995	652,995
Positive fair value of hedges	524,812	524,812	663,827	663,827
Available-for-sale financial assets	2,145,941	2,145,941	2,245,410	2,245,409
Financial assets designated at fair value through profit or loss	4,310	4,310	4,244	4,244
Investments accounted for using the equity method	26,449	26,449	27,105	27,105
Investment property	71,292	67,844	71,584	67,752
Sundry other assets incl. non-current assets held for sale (IFRS 5)	39,619	39,663	41,478	41,515
Total assets	**15,399,218**	**15,445,487**	**15,901,122**	**15,737,594**
Liabilities				
Deposits from banks	2,593,683	2,609,539	2,628,621	2,627,730
Deposits from customers	2,638,559	2,618,419	2,309,895	2,305,056
Debts evidenced by certificates	8,164,230	8,118,080	8,757,310	8,553,311
Liabilities held for trading	509,859	509,859	591,140	591,140
Negative fair value of hedges	739,881	739,881	877,867	877,867
Other liabilities	94,666	94,824	104,338	104,376
Subordinated capital	210,417	207,412	209,938	206,059
Total liabilities	**14,951,295**	**14,898,014**	**15,479,109**	**15,265,539**

[1] Carrying value of loans and advances to customers (individually impaired)

6.1.2 FAIR VALUE HIERARCHY DISCLOSURES

IFRS 13 applies to the categories of financial instruments established by IAS 39, as well as those recognised in accordance with other standards, and to other unrecognised instruments. Under IFRS 13 these financial instruments must be grouped into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of the instruments concerned.

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

Level 1: Quoted prices in active markets

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

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

Level 2: Valuation techniques based on observable inputs

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

Level 3: Valuation techniques not based on observable inputs

In this case the inputs for the asset or liability are unobservable, i.e. not based on observable market data. In this model, measurement is based on management's assumptions and assessments, which depend on the price transparency and complexity of the financial instrument.

		Fair value measurement		
30 Jun. 2015, EUR '000	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Loans and advances to banks	863,726	-	858,792	4,934
Loans and advances to customers	11,152,918	-	44,675	11,108,243
Assets held for trading	570,151	2,327	36,504	531,320
Positive fair value of hedges	524,812	-	524,812	-
Available-for-sale financial assets	2,145,941	1,792,505	113,408	240,028
Financial assets designated at fair value through profit or loss	4,310	4,310	-	-
Investments accounted for using the equity method	26,449	-	-	26,449
Investment property	71,292	-	-	71,292
Sundry other assets incl. non-current assets held for sale (IFRS 5)	39,619	-	-	39,619
Total assets	**15,399,218**	**1,799,142**	**1,578,191**	**12,021,885**
Liabilities				
Deposits from banks	2,593,683	-	2,410,240	183,443
Deposits from customers	2,638,559	-	-	2,638,559
Debts evidenced by certificates	8,164,230	3,292,645	4,871,314	271
Liabilities held for trading	509,859	-	484,228	25,631
Negative fair value of hedges	739,881	-	739,881	-
Other liabilities	94,666	-	-	94,666
Subordinated capital	210,417	-	208,964	1,453
Total liabilities	**14,951,295**	**3,292,645**	**8,714,627**	**2,944,023**

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

Information on reallocations between the various levels of the fair value hierarchy is not included in the table, as no financial instruments were reallocated during the first half of 2015 (as in the first half of 2014).

31 Dec. 2014, EUR '000	Total fair value	Fair value measurement Level 1	Level 2	Level 3
Assets				
Loans and advances to banks	939,533	-	935,300	4,233
Loans and advances to customers	11,254,946	-	46,514	11,208,432
Assets held for trading	652,995	-	45,123	607,872
Positive fair value of hedges	663,827	-	663,827	-
Available-for-sale financial assets	2,245,410	1,785,061	197,643	262,706
Financial assets designated at fair value through profit or loss	4,244	4,244	-	-
Investments accounted for using the equity method	27,105	-	-	27,105
Investment property	71,584	-	-	71,584
Sundry other assets incl. non-current assets held for sale (IFRS 5)	41,478	-	-	41,478
Total assets	**15,901,122**	**1,789,305**	**1,888,407**	**12,223,410**
Liabilities				
Deposits from banks	2,628,621	-	2,507,030	121,591
Deposits from customers	2,309,895	-	-	2,309,895
Debts evidenced by certificates	8,757,310	3,807,924	4,949,128	258
Liabilities held for trading	591,140	-	559,040	32,100
Negative fair value of hedges	877,867	-	877,867	-
Other liabilities	104,338	-	104	104,233
Subordinated capital	209,938	85,205	123,280	1,453
Total liabilities	**15,479,109**	**3,893,129**	**9,016,449**	**2,569,530**

6.1.3 FAIR VALUE HIERARCHY: LEVEL 3 DISCLOSURES

EUR '000	As at 1 Jan. 2015	Gains or losses: in profit or loss	Gains or losses: in other comprehen-sive income	Pur-chases	Settle-ments	Transfers to/out of Level 3	Re-clas-sifica-tion	As at 30 Jun. 2015	Losses/gains recognised in profit and loss for assets held as at 30 Jun. 2015
Assets									
Assets held for trading	607,872	-76,552	-	-	-	-	-	531,320	-74,940
Available-for-sale financial assets	262,706	-22,703	2,171	-	-2,146	-	-	240,028	-22,703
Sundry other assets incl. non-current assets held for sale (IFRS 5)	2,983	-	-	-	-2,983	-	-	-	-
Total assets	**873,561**	**-99,255**	**2,171**	**-**	**-5,129**	**-**	**-**	**771,348**	**-97,643**
Liabilities									
Liabilities held for trading	32,100	-6,469	-	-	-	-	-	25,631	5,854
Total liabilities	**32,100**	**-6,469**	**-**	**-**	**-**	**-**	**-**	**25,631**	**5,854**

Both in 2014 and during the reporting period, assets and liabilities held for trading included derivatives in the form of customer swaps and put options. The "Available-for-sale financial assets" item included bonds in both periods.

Material gains/losses on Level 3 assets, namely losses of EUR 74,940thsd (2014: gains of EUR 181,103thsd) on assets held for trading and gains of EUR 5,854thsd (2014: losses of EUR 40,195thsd) on liabilities held for trading are reported under Note 3.5 Net trading income.

EUR '000	As at 1 Jan. 2014	Gains or losses: in profit or loss	Gains or losses: in other comprehensive income	Purchases	Settlements	Transfers to/out of Level 3	Reclassification	As at 31 Dec. 2014	Gains/losses recognised in profit and loss for assets held as at 31 Dec. 2014
Assets									
Assets held for trading	442,996	164,876	-	-	-	-	-	607,872	181,103
Available-for-sale financial assets	84,053	-54,072	67,650	35	-4,455	167,930	1,565	262,706	-44,409
Sundry other assets (incl. non-current assets held for sale, IFRS 5)	-	583	-	-	-	-	2,400	2,983	821
Total assets	**527,049**	**111,387**	**67,650**	**35**	**-4,455**	**167,930**	**3,965**	**873,560**	**137,515**
Liabilities									
Liabilities held for trading	916	31,185	-	-	-	-	-	32,100	-40,195
Total liabilities	**916**	**31,185**	**-**	**-**	**-**	**-**	**-**	**32,100**	**-40,195**

6.1.4 LEVEL 3 SENSITIVITY ANALYSIS

The following disclosures are intended to show the potential consequences of the relative uncertainty inherent in determining the fair value of financial instruments for which measurement is based on unobservable parameters. The sensitivity analysis includes credit spreads in the determination of the credit value adjustment (CVA) or debit valuation adjustment (DVA) for customer derivatives, and upward valuation adjustments for Level 3 securities. Appropriate values which reflect the prevailing market conditions and the uncertainty involved in calculating measurement inputs as at the end of the reporting period were selected when determining the unobservable parameters. On the basis of this framework a bandwidth of 10 basis points (bp) was used in the analysis presented in the table below, which shows the impact of changes in material unobservable input parameters on the fair value of Level 3 financial instruments. In practice, it is highly unlikely that all of the unobservable measurement parameters will lie at either extreme of the chosen bandwidth simultaneously, meaning that the estimates in the table exceed the actual element of uncertainty when calculating fair value as at the end of the reporting period. It should also be noted that the figures presented below do not represent a forecast or indication of future changes in fair value.

30 Jun. 2015, EUR '000	Positive changes in fair value	Negative changes in fair value
Derivatives	-	-2,128
Securities	-	-1,207
Total	**-**	**-3,336**

6.1.5 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

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

30 Jun. 2015, EUR '000	Financial assets/liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Effect of framework agreements on offsetting (-) not offset	Collateral in the form of financial instruments (-) not offset	Net amount
	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
Assets						
Loans and advances to customers	11,293,552	-	11,293,552	-	-	11,293,552
Assets held for trading	570,151	-	570,151	-24,033	-71	546,047
Positive fair value of hedges	524,812	-	524,812	-334,392	-70,336	120,084
Total assets	**1,094,963**	**-**	**1,094,963**	**-358,425**	**-70,407**	**666,131**
Liabilities						
Deposits from customers	2,618,419	-	2,618,419	-	-	2,618,419
Liabilities held for trading	509,859	-	509,859	-24,033	-	485,826
Negative fair value of hedges	739,881	-	739,881	-334,392	-	405,489
Total liabilities	**1,249,740**	**-**	**1,249,740**	**-358,425**	**-**	**891,315**

31 Dec. 2014, EUR '000	Financial assets/liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Effect of framework agreements on offsetting (-) not offset	Collateral in the form of financial instruments (-) not offset	Net amount
	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
Assets						
Loans and advances to customers	11,194,075	-9	11,194,066	-	-	11,194,066
Assets held for trading	652,995	-	652,995	-28,560	-68	624,367
Positive fair value of hedges	663,827	-	663,827	-457,360	-94,481	111,986
Total assets	**12,510,897**	**-9**	**12,510,888**	**-485,920**	**-94,549**	**11,930,419**
Liabilities						
Deposits from customers	2,305,065	-9	2,305,056	-	-	2,305,056
Liabilities held for trading	591,140	-	591,140	-28,560	-	562,580
Negative fair value of hedges	877,867	-	877,867	-457,360	-	420,507
Total liabilities	**3,774,072**	**-9**	**3,774,063**	**-485,920**	**-**	**3,288,143**

6.2 DERIVATIVES

	30 Jun. 2015			31 Dec. 2014		
	Nominal	Fair value		Nominal	Fair value	
EUR '000	value	Positive	Negative	value	Positive	Negative
Derivatives held for trading						
Interest rate	6,271,961	558,257	494,644	6,211,514	648,003	581,775
Foreign currencies and gold	481,413	9,567	15,215	138,067	4,992	9,365
Total	**6,753,374**	**567,824**	**509,859**	**6,349,581**	**652,995**	**591,140**
Fair value hedges						
Interest rate	11,735,706	517,129	724,452	11,829,382	659,179	864,577
Foreign currencies and gold	289,070	7,683	15,429	264,686	4,647	13,290
Total	**12,024,776**	**524,812**	**739,881**	**12,094,068**	**663,826**	**877,867**

6.3 Analysis of assets and liabilities by IAS 39 measurement categories

30 Jun. 2015, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)
Cash and balances at central banks	-	-
Loans and advances to banks	874,042	-
Loans and advances to customers	11,293,552	-
Risk provisions	-106,234	-
Assets held for trading	-	-
Positive fair value of hedges	-	-
Available-for-sale financial assets	-	-
Financial assets designated at fair value through profit or loss	-	-
Investments accounted for using the equity method	-	-
Investment property	-	-
Other financial assets[1]	38,543	-
Total financial assets	**12,099,903**	**-**
Deposits from banks	-	2,609,539
Deposits from customers	-	2,618,419
Debts evidenced by certificates	-	8,118,080
Liabilities held for trading	-	-
Negative fair value of hedges	-	-
Subordinated capital	-	207,412
Other financial liabilities[1]	-	79,154
Total financial liabilities	**-**	**13,632,604**

Held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Available for sale (AFS)	Fair value hedges	Financial assets/ liabilities at cost (at amortised cost)	Total
-	-	-	-	20,909	20,909
-	-	-	-	-	874,042
-	-	-	-	-	11,293,552
-	-	-	-	-	-106,234
570,151	-	-	-	-	570,151
-	-	-	524,812	-	524,812
-	-	2,145,941	-	-	2,145,941
-	4,310	-	-	-	4,310
-	-	-	-	26,449	26,449
-	-	-	-	67,844	67,844
-	-	-	-	-	38,543
570,151	**4,310**	**2,145,941**	**524,812**	**115,202**	**15,460,319**
-	-	-	-	-	2,609,539
-	-	-	-	-	2,618,419
-	-	-	-	-	8,118,080
509,859	-	-	-	-	509,859
-	-	-	739,881	-	739,881
-	-	-	-	-	207,412
-	-	-	-	-	79,154
509,859	**-**	**-**	**739,881**	**-**	**14,882,344**

31 Dec. 2014, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)
Cash and balances at central banks	-	-
Loans and advances to banks	944,046	-
Loans and advances to customers	11,194,066	-
Risk provisions	-108,562	-
Assets held for trading	-	-
Positive fair value of hedges	-	-
Available-for-sale financial assets	-	-
Financial assets designated as at fair value through profit or loss	-	-
Investments accounted for using the equity method	-	-
Investment property	-	-
Other financial assets[1]	36,985	-
Total financial assets	**12,066,535**	**-**
Deposits from banks	-	2,627,730
Deposits from customers	-	2,305,056
Debts evidenced by certificates	-	8,553,311
Liabilities held for trading	-	-
Negative fair value of hedges	-	-
Subordinated capital	-	206,059
Other financial liabilities[1]	-	90,652
Total financial liabilities	**-**	**13,782,808**

[1] Shown under "Other assets" or "Other liabilities" in the statement of financial position.

Held for trading (HFT)	Designated at fair value through profit or loss (FVTPL)	Available for sale (AFS)	Fair value hedges	Financial assets/ liabilities at cost (at amortised cost)	Total
-	-	-	-	99,025	99,025
-	-	-	-	-	944,046
-	-	-	-	-	11,194,066
-	-	-	-	-	-108,562
652,995	-	-	-	-	652,995
-	-	-	663,827	-	663,827
-	-	2,245,409	-	-	2,245,409
-	4,244	-	-	-	4,244
-	-	-	-	27,105	27,105
-	-	-	-	67,752	67,752
-	-	-	-	-	36,985
652,995	**4,244**	**2,245,409**	**663,827**	**193,882**	**15,826,892**
-	-	-	-	-	2,627,730
-	-	-	-	-	2,305,056
-	-	-	-	-	8,553,311
591,140	-	-	-	-	591,140
-	-	-	877,867	-	877,867
-	-	-	-	-	206,059
-	-	-	-	-	90,652
591,140	**-**	**-**	**877,867**	**-**	**15,251,815**

6.4 Disclosures on related-party relationships

30 Jun. 2015, EUR '000	Investors with significant influence over the Group's parent	Non-consolidated subsidiaries (greater than 50%)	Investments accounted for using the equity method	Joint ventures in which the Company is a joint venturer	Associates and other related parties	Key management
Loans and advances to customers	2,745,385	106,635	216,775	1,208	13,017	6,090
of which lease receivables	*1,803,658*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	161	24,529	1,920	477	-
Positive fair value of derivatives	80,110	-	-	-	-	-
Other assets	288	-	-	-	-	-
Deposits from banks	-	-	-	1,165	-	-
Deposits from customers	37,193	394	16,324	110	5,093	7,204
Other liabilities	-	-	-	200	-	-
Guarantees provided by the Group	-	-	13,959	-	-	14
Other obligations incl. unused credit lines	586,702	14,519	27,440	13,527	12,736	1,057
Guarantees received by the Group	2,757,609	-	-	-	-	-
Provisions for doubtful debts	-	-	-9	-	-	-

31 Dec. 2014, EUR '000	Investors with significant influence over the Group's parent	Non-consolidated subsidiaries (greater than 50%)	Investments accounted for using the equity method	Joint ventures in which the Company is a joint venturer	Associates and other related parties	Key management
Loans and advances to customers	2,778,973	100,472	221,547	2,771	16,549	4,339
of which lease receivables	*1,765,216*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	162	28,292	1,828	477	-
Positive fair value of derivatives	92,774	-	-	-	-	-
Other assets	254	-	-	-	-	-
Deposits from banks	-	-	-	964	-	-
Deposits from customers	30,802	595	15,751	23	6,292	4,742
Other liabilities	59	-	14	200	-	-
Guarantees provided by the Group	-	-	8,900	-	-	14
Other obligations incl. unused credit lines	597,318	7,718	9,421	20,596	33,982	852
Guarantees received by the Group	2,834,905	-	-	-	-	-
Provisions for doubtful debts	-	-	-12	-	-	-10

During the period under review, EUR 8thsd (2014: EUR 5thsd) was recognised as expenses in respect of bad or doubtful debts due from related parties.

The transfer prices between HYPO NOE Gruppe AG and related parties were arm's length prices.

The Lower Austrian state government holds a direct interest of 70.49% in HYPO NOE Gruppe Bank AG via NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% via NÖ BET GmbH. The size of its holding means that Lower Austria exercises significant influence over the Group's parent, as shown in the table above.

Key management in the HYPO NOE Group comprises "identified staff" and "identified staff with less material impact".

6.5 Contingent liabilities and credit risk

6.5.1 CONTINGENT LIABILITIES

EUR '000	30 Jun. 2015	31 Dec. 2014
Acceptances and endorsements	109	109
Liabilities arising from guarantees and provision of collateral	140,370	141,731

6.5.2 CREDIT RISK

EUR '000	30 Jun. 2015	31 Dec. 2014
Unutilised facilities	1,466,869	1,223,716

6.6 Events after the reporting period

Negotiations on a medium-term solution to the Greek debt crisis extended beyond the reporting date. On 5 July 2015 a referendum was held in Greece on the reforms proposed by the country's creditors, and this resulted in a rejection of the austerity programme. Nevertheless on 13 July, a compromise was agreed between the Greek government and creditor countries and institutions in Brussels. Technical talks between the Greek government and the institutions on a third, EUR 86bn three-year rescue package for Greece began on 27 July. A Greek exit from the euro looks unlikely if the compromise deal remains in place. The HYPO NOE Group does not hold any Greek sovereign bonds.

A memorandum of understanding regarding ongoing legal developments surrounding wind-down bank HETA has been signed by the Free State of Bavaria and the Republic of Austria. Its purpose is to settle all the legal disputes between BayernLB and HETA, the Austrian government and Kärntner Landesholding. On 15 July 2015 a group of creditors led by Germany's Dexia Kommunalbank brought an action in respect of claims against HETA amounting to around EUR 1bn at the Frankfurt am Main Provincial Court. Since then another group of ten creditors has been set up. This includes Commerzbank and FMS Wertmanagement, the state "bad bank" established to wind down Germany's Hypo Real Estate Holding AG. The group aims to secure the redemption of bonds with a total face value of over EUR 2bn.

In July the Austrian Constitutional Court ruled on proceedings concerning the Hypo-Alpe-Adria Sanierungsgesetz (Act on Restructuring Measures for Hypo Alpe Adria Bank International AG). On 28 July 2015 the court published its verdict, whereby the Act is unconstitutional and is struck down in its entirety, together with the accompanying administrative order. The act and the order are no longer applicable. The distinction between different categories of subordinated creditors drawn by the Act, on the basis of the maturity date established by it, is unconstitutional. The court also ruled that imposition of a "haircut" only on one group of junior creditors, while liabilities to others remained in place, was unfounded and disproportionate. Moreover, letters of indemnity issued by a federal state may not retroactively be completely invalidated by fiat, as a one-off measure. However, the administrative ruling enacted by the Austrian Financial Market Authority on 1 March 2015, after the entry into effect of the Sanierungs- und Abwicklungsgesetz (Bank Recovery and Resolution Act), means that although the subordinated claims that would have been overturned are reinstated they are subject to the moratorium on repayments until 31 May 2016 imposed by administrative order. The Constitutional Court's argumentation implies, in theory, that in the event of the equal treatment of senior and junior creditors by the Carinthian state government in its capacity as guarantor, the latter would be confronted with higher total claims.

6.7 Governing bodies of HYPO NOE Gruppe Bank AG

The following persons were members of the Management and Supervisory boards during the reporting period:

Management Board
- Peter Harold, Chairman of the Management Board
- Nikolai de Arnoldi, Member of the Management Board

Supervisory Board
- Günther Ofner, Chairman of the Supervisory Board (from 17 April 2015)
- Burkhard Hofer, Chairman of the Supervisory Board (until 17 April 2015)
- Michael Lentsch, Deputy Chairman
- Karl Fakler (from 17 April 2015)
- Gottfried Haber (from 17 April 2015)
- Ulrike Prommer (from 17 April 2015)
- Engelbert J. Dockner
- Karl Schlögl
- Hubert Schultes
- Klaus Schneeberger (until 17 April 2015)
- Karl Sonnweber (until 17 April 2015)
- Elisabeth Stadler (until 17 April 2015)

Delegated by the Works Council
- Hermann Haitzer
- Peter Böhm
- Franz Gyöngyösi
- Claudia Mikes

State commissioners
- Hans Georg Kramer, CFP, Federal Ministry of Finance
- Franz Ternyak, Federal Accounting Agency

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

St Pölten, 7 August 2015

The Management Board

Peter Harold
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

DECLARATION BY THE COMPANY'S MANAGEMENT

We hereby confirm that to the best of our knowledge the 2015 condensed semi-annual consolidated financial statements of HYPO NOE Gruppe Bank AG give a true and fair view of the Group's assets, liabilities, financial position and profit or loss as required by the applicable accounting standards, and that the Group interim operational and financial review gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed semi-annual consolidated financial statements, and of the principal risks and uncertainties to which the Group will be exposed during the remaining six months of the financial year.

IAS 34 was applied in the preparation of the 2015 condensed semi-annual consolidated financial statements. Essentially the same accounting policies were applied as to the financial statements for the year ended 31 December 2014.

The 2015 semi-annual financial report was neither audited nor reviewed by independent auditors.

St Pölten, 7 August 2015

The Management Board

Peter Harold
Chairman of the Management Board

Responsible for Sales & Treasury,
Participations & Public Services,
Group Organisation, IT & Facility Management,
Group Real Estate Business,
Unit Group ALM & Strategic Planning,
Unit Group Rating & Investor Advisory,
Group Marketing & PR, Group Human Resources,
General Secretariat & Group Compliance, Audit

Nikolai de Arnoldi
Member of the Management Board

Responsible for
Group Credit Risk Coordination,
Group Finance & Strategic Risk Management,
Ombudsman, Unit Group Tax Advisory,
Unit Group Intensive Care Mgmt,
Group Credit Services, Group Treasury Services,
Group Payment Administration &
Custodian Bank Services, Group Legal

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