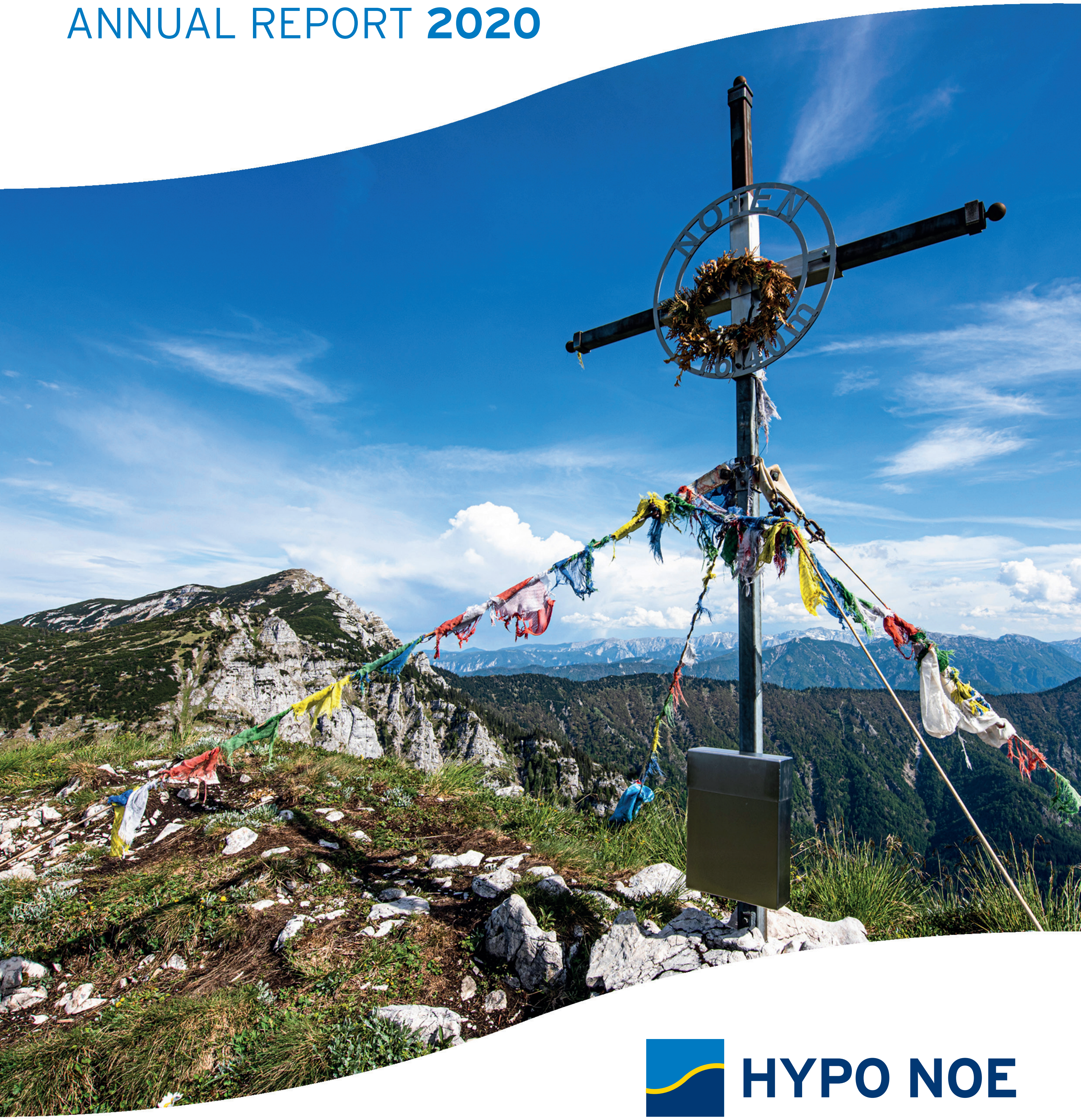
ANNUAL REPORT **2020**



HYPO NOE

GROUP FINANCIAL HIGHLIGHTS

EUR '000		
Consolidated statement of comprehensive income	**31 Dec. 2020**	**31 Dec. 2019**
Net interest income	129,153	117,910
Administrative expenses	-104,844	-110,067
Impairment losses/gains on financial assets – IFRS 9 ECL	-20,438	-9,514
Profit before tax	**41,156**	**37,692**
Income tax expense	-9,281	-7,291
Profit for the year	**31,876**	**30,401**
Consolidated statement of financial position	**31 Dec. 2020**	**31 Dec. 2019**
Total assets	16,416,615	14,571,762
Financial assets – AC	13,230,957	12,417,093
Financial liabilities – AC	14,274,540	12,522,091
Equity (incl. non-controlling interests)	710,362	683,502
Consolidated own funds and own funds requirement	**31 Dec. 2020**	**31 Dec. 2019**
Eligible Tier 1 capital	691,311	666,345
Total eligible capital	691,311	666,345
Minimum capital requirement (Pillar I)	308,546	277,828
Excess equity	382,765	388,517
Total risk exposure amount in accordance with Art. 92(3) CRR	3,856,823	3,472,853
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR – fully loaded	17.92%	19.19%
Total capital ratio in accordance with Art. 92(2)(c) CRR – fully loaded	17.92%	19.19%
Operational resources	**31 Dec. 2020**	**31 Dec. 2019**
Number of employees at year-end	714	742
Number of branches	27	27
Selected payments, levies and other public sector items	**31 Dec. 2020**	**31 Dec. 2019**
Financial stability contribution (bank tax)	-8,602	-8,517
Current income tax	-11,522	-7,646
Deferred income tax	2,241	355
Social security contributions and other pay-related contributions	-14,173	-15,037
Group financial highlights[1]	**31 Dec. 2020**	**31 Dec. 2019**
Return on equity before tax	5.91%	5.60%
Cost/income ratio (CIR)	53.29%	59.51%
NPL ratio	0.78%	0.96%
LCR	199.56%	157.14%

[1]See section 3 FINANCIAL REVIEW for details of the calculation.

FOREWORD BY THE SUPERVISORY BOARD

A look back at 2020 reveals just how difficult the past 12 months have been for people, businesses and the global economy. It was a year in which the continuation of historically low interest rates was compounded by a global health crisis that quickly turned into a crisis for the world economy and society at large. The HYPO NOE Group responded very quickly to changes in the economic environment while operating in full accordance with the new health measures and economic policies that were put in place, ultimately reporting a successful financial year in spite of the adverse conditions it faced.

To safeguard the wellbeing of its employees and customers, back office staff began working from home, and the switch was made to telephone and online support in the space of just a few days. At the same time, the branches – which were designated as essential services – remained open to customers with strict distancing and hygiene measures in place. Thanks to the ongoing commitment and dedication of our employees and our tried-and-tested business model, the HYPO NOE Group continued to serve as a reliable banking partner for its customers throughout.

Putting the coronavirus pandemic to one side for a moment, 2020 brought numerous positive developments in the HYPO NOE Group's various lines of business. Chief among them was digitalisation, and not just borne out of necessity due to Covid-19 containment measures. In line with the HYPO NOE Group's strategy of providing a mix of personal service and digitalised support, the Bank continued to build on its online offerings. New standards were set in this area in various ways, particularly with the October launch of the online wohnrechner.at project cost calculator, which allows would-be homebuilders to plan their renovation or new-build projects at home – a first for Austria. The HYPO NOE Group is playing a pioneering role in the financial sector with this new tool by showing its ability to adapt to shifting customer requirements, which is a situation faced by all banks. Through its strategy of focusing on moving digitalisation forward while continuing to provide in-branch support and advice for key life decisions, the HYPO NOE Group is clearly living up to customer needs, which lays the foundations for enhanced customer satisfaction.

Whether in connection with climate and environmental protection or social responsibilities, the HYPO NOE Group's increased commitment to sustainability is particularly encouraging. Last year, the HYPO NOE Group further enhanced its standing as a role model in this respect and strengthened its commitment to building on the principles of sustainable business despite the crisis. The decision by respected ratings agency ISS ESG to upgrade the Group's sustainability rating from C to C+ was a particular highlight, enabling the HYPO NOE Group to position itself as one of the most sustainable regional banks. Another milestone was achieved in 2020 in the field of sustainable financing, an area which has always been deeply rooted at the HYPO NOE Group, when it became the first Austrian bank to issue a green bond, certified by the Austrian Ecolabel for sustainable financial products.

In 2020 the Supervisory Board was involved in all fundamental decisions and supervised the Management Board in accordance with legal requirements. Through its plenary and committee meetings – which were held remotely after the outbreak of the coronavirus pandemic – and reports from the Management Board, the Supervisory Board was able to obtain a timely and comprehensive picture of the relevant economic and financial developments affecting the HYPO NOE Group.

The Group's positive performance and its ability to build on robust corporate foundations in the 2020 financial year are attributable to the implementation and refinement of a successful corporate strategy. By virtue of their mutually supportive relationship, the HYPO NOE Group and its sole owner, the State of Lower Austria, benefit from one another. Due to its long-term approach, the State supports the Bank's continued expansion, while the Group works to ensure consistent dividend income and growth in the Bank's value.

A year as challenging as 2020 would not have turned out to be so successful for the Bank without the tireless commitment and outstanding work of our employees. The Supervisory Board would like to express its gratitude to all employees and to the Management Board for their contribution.

Günther Ofner
Chairman of the Supervisory Board

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

HYPO NOE

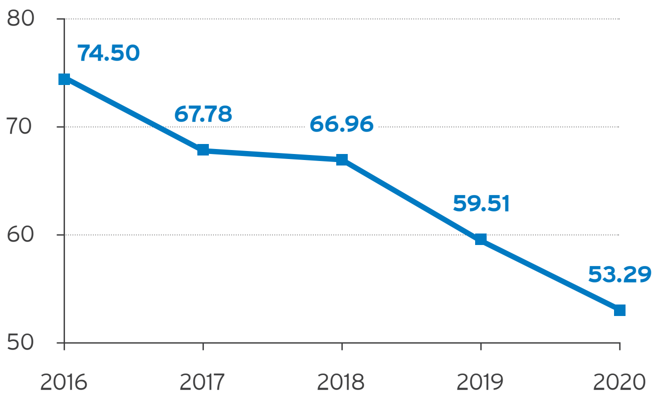
Bank & Land

2020 HYPO NOE Group Annual Report
magazine supplement

For more information, visit:
ir.hyponoe.at/en

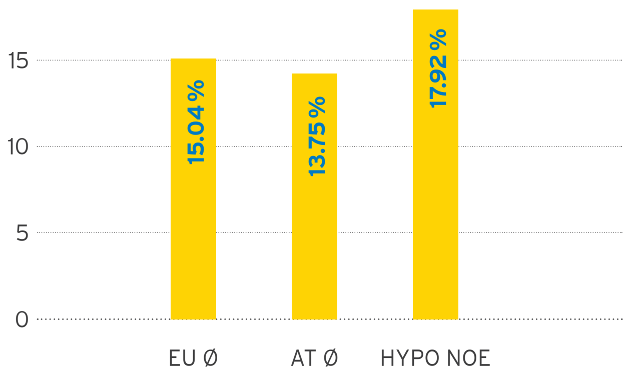
Group financial highlights

COST/INCOME RATIO (CIR)
%

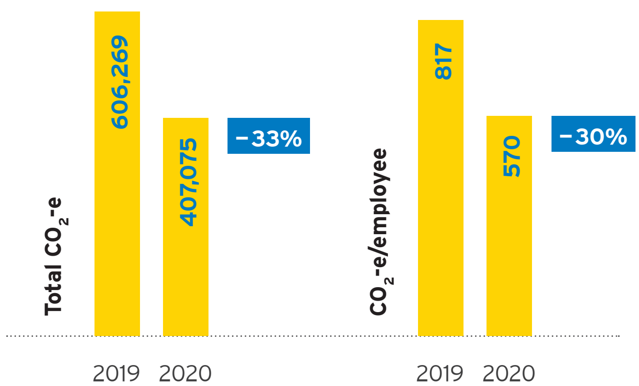


COMMON EQUITY TIER 1 (CET1) RATIO
2020, %

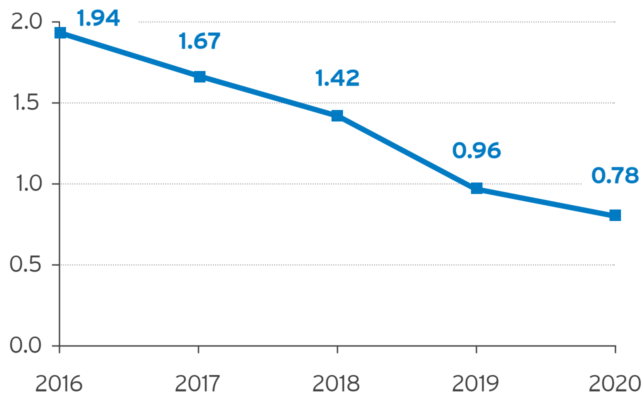
AT Ø and EU Ø – source: European Banking Authority (EBA); most recent figures: June 2020



CARBON FOOTPRINT (down 57% since 2016)
kg CO_2-e



NON-PERFORMING LOAN (NPL) RATIO
%



IN 2020 THE HYPO NOE GROUP...

150
financed 150 kindergartens, schools and other municipal projects

1,500
helped 1,500 customers to build new homes of their own

2,500
financed 2,500 new apartments

4,600
serviced 4,600 business customers

1.7 EUR bn
authorised new lending of EUR 1.7bn

See the FINANCIAL REVIEW and NON-FINANCIAL STATEMENT in the 2020 annual report for details of the calculations.

Contents

The full annual report is available for download here:

ir.hyponoe.at/en

FACTS AND FIGURES

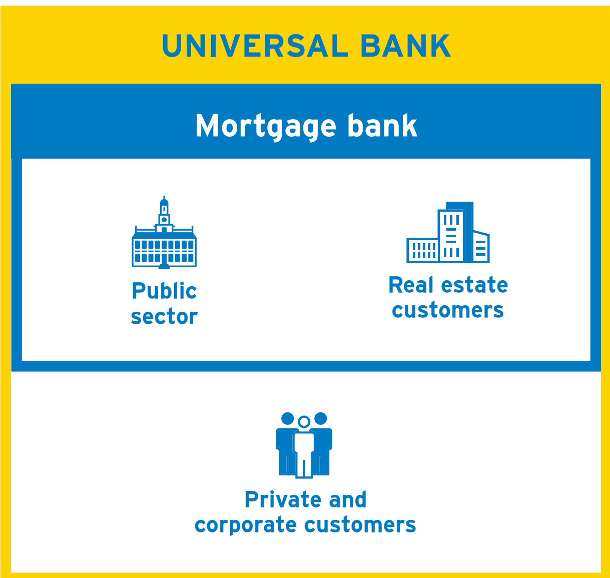
HYPO NOE at a glance

STRONG REGIONAL ROOTS. HYPO NOE Landesbank – Austria's largest and oldest-established state mortgage bank[1] – can depend on a reliable sole owner in the shape of the State of Lower Austria.

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

Low-risk business model – tried and tested since 1888

Consistently low NPL and risk-weighted asset (RWA) ratios



HYPO NOE's strategy

ORGANIC GROWTH
- Focus on core business
- Emphasis on Austria and Germany

DIGITALISATION
- Best-in-class core products
- Partnerships for add-on products

PROFITABILITY
- Growth and diversification of core income streams
- Maintaining a conservative risk and capital profile

PERFORMANCE METRICS

0.78%
NPL ratio

3.5
EUR bn RWA*

17.92%
CET1 ratio

A (stable)
S&P issuer credit rating

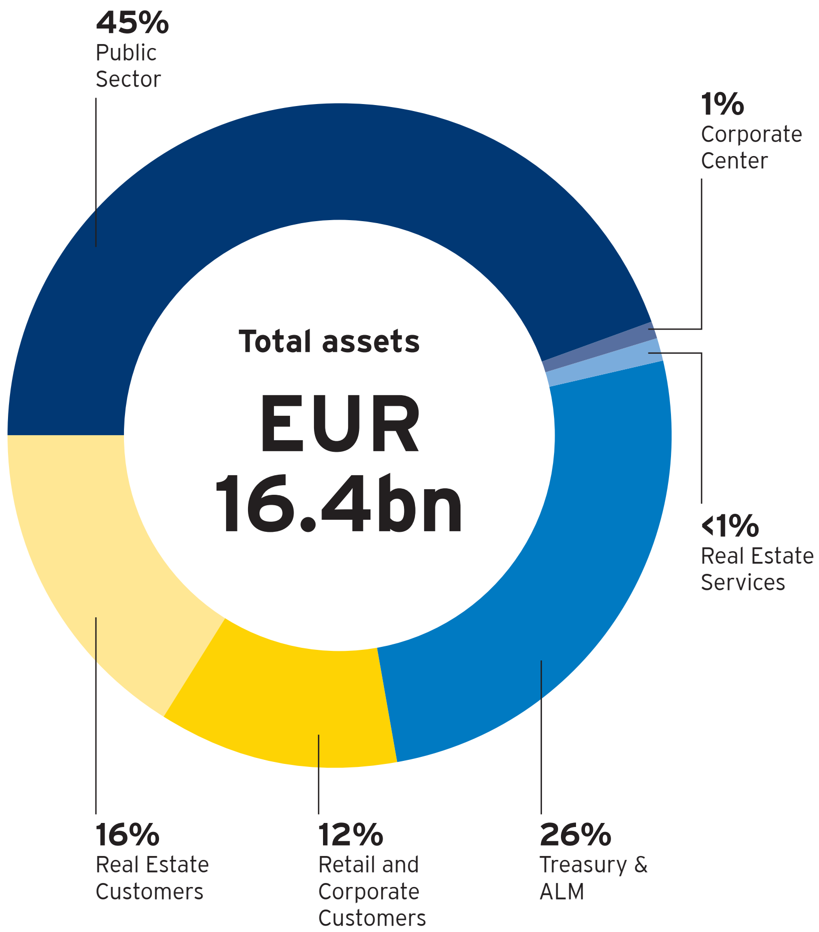
Aa1
Moody's covered bond ratings

Prime
ISS ESG CSR rating

* Risk-weighted exposure to credit risk

The HYPO NOE Group's business segments

Assets, 31 December 2020



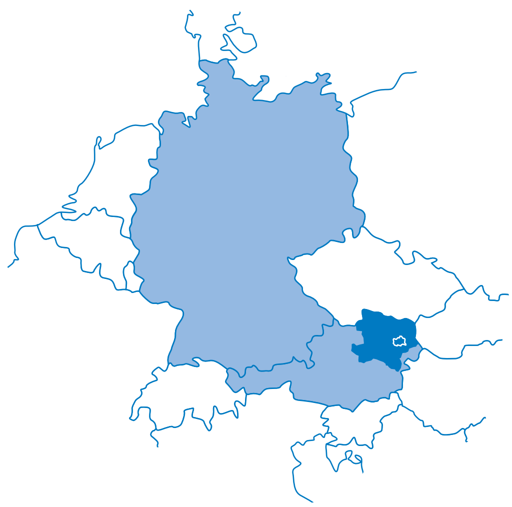
A strong partner in a robust regional economy

Eastern Austria has one of the country's largest and most dynamic regional economies. Lower Austria and Vienna generate some 41% of national GDP. HYPO NOE Landesbank has a particularly strong presence on its home market.

Home market: Lower Austria and Vienna

Core market: Austria and Germany

Also targeted: selected EU markets



Successfully weathering Covid-19

JANUARY 2020

A musical start to the year

More than a thousand guests took up HYPO NOE Landesbank's invitation to attend the New Year's Day concert at St. Pölten's Festspielhaus. Customers, business partners and famous faces from the worlds of politics, business and culture enjoyed an entertaining evening that played out to the sounds of brothers Josef and Johann Strauss.

A pre-Covid treat for the ears: more than a thousand guests were treated to the sounds of the Strauss brothers.

FEBRUARY/SEPTEMBER 2020

New banking experience in St. Pölten

Wood and natural earth shades – a new "feelgood" branch of HYPO NOE Landesbank opened at St. Pölten University Hospital in February. Fully in keeping with the new architectural concept, the premises feature the customary state-of-the-art technical equipment alongside an appealing aesthetic which provides a conducive backdrop for extended consultations focusing on key life decisions. The same applies to the new branch that opened its doors in the government district of St. Pölten in September.

The new branch at St. Pölten University Hospital certainly stands out thanks to its appealing ambience.

MARCH/APRIL 2020

Stable outlook and sustainability rating upgrade

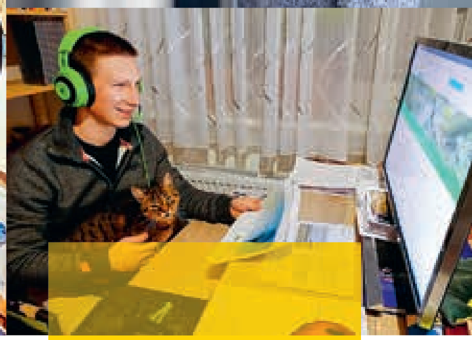
Although the coronavirus crisis is also weighing heavily on the banking sector, in April S&P Global confirmed its stable rating for HYPO NOE Landesbank – which was only one of two Austrian banks to achieve this status. At the same time, the Bank was awarded a solid single A rating. In March, respected sustainability ratings agency ISS ESG upgraded HYPO NOE Landesbank from C to C+, a move which confirmed its standing as one of the most sustainable regional banks in the world.

Corporate Responsibility Prime
RATED BY ISS ESG

OCTOBER 2020

Launch of innovative Wohnrechner project cost calculator

In October, HYPO NOE Landesbank introduced a new online tool for customers to help them estimate the costs of their home construction or home buying project. The programme also generates a free mortgage quote on request. The Wohnrechner tool was launched in partnership with start-up company MeinBau.



Three and a half bank employees working from home: Petra Skala, Alexander Krejcirik, and Christoph Neubauer assisted by Tiger the cat

FROM APRIL 2020

Healthcare crisis plan

To help keep its employees and customers safe, HYPO NOE Landesbank initiated a raft of measures to guard against Covid-19, while also ensuring that day-to-day banking operations continued uninterrupted. Plexiglass partitions and hand sanitiser stations were installed at the branches, while the scope of online banking services was extended. Employees were encouraged to work from home and meetings were moved online.

"Committed to sustainability": HYPO NOE Management Board members Wolfgang Viehauser and Udo Birkner with Lower Austria state councillor for finance Ludwig Schleritzko (centre)

MAY/JUNE 2020

Successful debut green bond

Despite the Covid-19 crisis, HYPO NOE Landesbank went ahead with its refinancing activities as planned: its mortgage-backed covered bond issued in May was six times oversubscribed. This was followed in June by the Bank's first senior preferred green bond. Likewise heavily oversubscribed, Austria's first green bond was certified in accordance with the UZ 49 standard for sustainable financial products.

Stable and crisis-proof

STRONG PERFORMANCE. Management Board Member Markets and Speaker Wolfgang Viehauser and Management Board Member Finance, Risk & Operations Udo Birkner talk about a year like no other, new digital services and the Bank's first green bond.

Without a doubt, 2020 was an extraordinary year. How did HYPO NOE fare in these unprecedented times?
WOLFGANG VIEHAUSER: In spite of all the challenges, we had a very successful year in 2020. We got off to a very strong start and in the first few months of the year we exceeded our targets by some distance, especially in terms of new lending. Starting in February, before the first lockdown we put wide-ranging measures in place that were designed to safeguard the health of our employees, customers and all of the Group's partners. Although distancing was the watchword, everyone at the bank pulled even closer together – figuratively speaking – during the pandemic. For instance, in the space of just a few days, we gave over 80% of our staff access to our systems from their home offices – so the Bank remained fully functional at all times although many of our people were working remotely.

UDO BIRKNER: Even though we're still feeling the consequences of the pandemic, we're also seeing that large sections of our balance sheet have remained untouched or have only been slightly affected by the crisis. That's because around 80%

Wolfgang Viehauser and Udo Birkner (pictured here before the pandemic) guided HYPO NOE safely through a turbulent year.

of total assets is accounted for by low-risk infrastructure, housing development and treasury positions, which have always proven to be highly crisis-resistant. The non-performing-loan (NPL) ratio for these positions was a mere 0.07% at the end of 2020. We do not have any equity or fund exposures on our books, and we've steadily reduced our fair-value positions over the past few years, so we are less exposed to market-related fluctuations.

Bank branches were classified as critical infrastructure, so they stayed open during the lockdown. How did you go about protecting customers and staff?
VIEHAUSER: During this unprecedented period, customers could still consult our employees face to face in the branches, but we also reached out to customers proactively by phone and electronically. That was especially important at the start of the pandemic, because of the high level of uncertainty at that time. But the health of our employees and customers was always our top priority. That's why we installed plexiglass screens in all of our branches as early as March. Our access control policy helped us to ensure that we didn't have too many people in a given branch at any one time. At the same time, we systematically drove forward the digitalisation of our product range and expansion of multi-channel sales. Our performance over the past few years has shown that we're definitely heading in the right direction by implementing this strategy in conjunction with our new branch design concept.

How happy are you with financial 2020 and what impact did the pandemic have on the results?
BIRKNER: It's all about rising to the challenge, as they say, and the annual results show that we made an especially good fist of it in 2020. We recorded yet another strong increase in operating profit, by 30.5%. It's particularly satisfying that this was down to improvements on both the earnings and the expenses side. Our core earnings – in other words, net interest income and net fee and commission income – rose by a healthy 8.6%, and we saw a further reduction in the cost base, by 4.7%. All in all, our results have bettered last year's solid performance, even though we recognised additional risk provisions for potential effects of Covid-19. This highlights the stability that our business model delivers, especially in testing times.

VIEHAUSER: New lending amounted to EUR 1.7bn, so we again fulfilled our traditional role as a state bank in 2020, providing people and businesses in the region with the best possible support, in spite of the difficulties we faced. Housing finance accounted for about EUR 800mn of the total, so not only did we pave the way for substantial investment, we also made a significant contribution to regional value creation. In 2020 alone, we helped more than 1,500 people to build new homes of their own. At the same time, we also gave our customers swift and efficient support during the crisis, including in the form of payment deferrals and bridging loans. In spite of all the additional matters we had to deal with, we succeeded in driving forward our Fokus 25 organisational development programme, as the 2020 results show. »

"The bank remained fully functional at all times even though our people were working remotely," Management Board Member Markets and Speaker Wolfgang Viehauser confirms.

"Although distancing was the order of the day, everyone at the bank pulled even closer together."

Wolfgang Viehauser

» **Moving on to Fokus 25 – how are things progressing on that front?**
BIRKNER: The 2020 results show that our strategy is starting to bed in. We're focused on our core competences in our core markets, and as a result we're generating higher operating earnings. But our capital base remains strong and we've made further improvements to what was already a very solid risk profile – our NPL ratio stood at a record low of 0.78% at 31 December 2020. On the other hand, Fokus 25 also needs to have an impact inside the Group in order to be successful. With this in mind, all managers attended courses on the Bank's jointly defined values last year, with a view to further strengthening our corporate culture. As far as our employees are concerned, the emphasis is on developing flexible working time models, which will enable us to remain an attractive employer in future. And we've posted further successes on the digitalisation front, in sales and banking operations, and in terms of process optimisation and automation.

Digitalisation is a crucial part of your strategy. What projects were completed in 2020?
VIEHAUSER: Digitalisation isn't just a buzzword at HYPO NOE. The new Sales Strategy and Digitalisation unit we set up last year is aimed at further boosting our effectiveness in this area and enhancing our competitiveness over the long term. I'd like to single out two projects we've implemented with the goal of further improving the digital customer experience. In October, we launched our www.wohnrechner.at cost calculator for home-builders and buyers – the first of its kind in Austria. We developed the innovative calculator in partnership with start-up MeinBau – it uses builders' actual prices to help people work out how much their dream home will really cost. Customers can request a non-binding financing offer and access other services, like price analysis for a particular property, free of charge at the press of a button. On top of that, we introduced HYPO NOE Business, an advanced online banking platform that allows corporate customers to manage their business accounts whenever they want, no matter where they are, using a web-based interface. They even have the option of integrating accounts with other banks into the platform.

HYPO NOE issued its first green bond last year. How did that come about?
BIRKNER: In our role as a state mortgage bank, we've been financing projects that create added value for society since the year dot. That means lending for infrastructure, for example in the health or education sector, as well as non-profit housing development projects that have to meet strict environmental standards and make a significant contribution to promoting affordable living. You could say that social responsibility was a key factor for us before people even started talking about sustainability. So extending our sustainable portfolio structure to include refinancing was a logical step for us. But before that, we worked hard to make sure we obtained solid and resilient sustainability ratings. Last year, leading sustainability rating agency ISS ESG upgraded our rating from C to C+, which showed yet again that our efforts in this area are bearing fruit. And it means we are one of the most sustainable regional banks in the world. New investors focused purely on sustainability accounted for around 30% of those who subscribed to our first green bond. This shows we're heading in the right direction – we will continue to put an emphasis on sustainability and integrate it even more closely into our business model.

Although we're living in uncertain times, let's take a look at what the future will bring anyway. How do you see the year ahead shaping up?
VIEHAUSER: Whatever happens, we expect interest rates to remain at or around zero as a result of Covid-19. As far as the economy is concerned, we anticipate a recovery in 2021 – but the size of the rebound depends primarily on when the approved vaccines are rolled out to the wider population. We're optimistic as we head into the future, in view of our low-risk business model and solid performance under challenging conditions in 2020.

BIRKNER: We've adopted a very prudent approach in recent years, so we can build on solid foundations. Now, in this difficult period, we're seeing just how important that is. The excellent quality of our assets, above-average capitalisation and the reliability of our sole owner, the State of Lower Austria, guarantees a high level of security and stability, meaning we're a dependable partner for our customers.

"We can build on solid foundations."

Udo Birkner

Management Board Member Markets Udo Birkner is delighted that HYPO NOE Landesbank has again reported a significant increase in operating profit.

HYPO NOE Landesbank (pictured: the Group's headquarters in St. Pölten) is built on solid foundations.

Charting a safe and steady course through stormy waters

STRONG FOUNDATIONS.
Increased earnings, a strong CET 1 ratio, solid ratings – HYPO NOE Landesbank's low-risk strategy proved its worth more than ever in 2020.

The HYPO NOE Group has put in a solid performance over the past few years, with the Zukunftsfit 2020 efficiency programme ensuring that it is ideally placed to meet the challenges of the future head on. This is further underpinned by a low-risk business model: around 80% of the Group's total assets of EUR 16.4bn is accounted for by financing for public infrastructure and housing development, and a treasury portfolio with a very low NPL ratio of just 0.07%.

All of which has so far paid off during the Covid-19 pandemic: In spite of the challenges facing the entire banking sector, HYPO NOE Landesbank reported yet another year-on-year rise in operating profit in 2020, of 30.5%.

Top marks. In April, respected ratings agency S&P Global confirmed its stable rating for HYPO NOE Landesbank – which was only one of two Austrian banks to achieve this status – in recognition of its low-risk strategy. The Group's solid A rating was also reaffirmed, while its strong focus on sustainability was reflected in ISS ESG's decision to upgrade its rating from C to C+.

Confident investors. The Bank retained unrestricted access to the capital markets throughout the crisis: In the first half, HYPO NOE Landesbank successfully placed two benchmark bonds worth a total of EUR 1bn, including the Group's first-ever green bond. With a high Tier 1 capital (CET 1) ratio of 17.92% and the backing of a reliable sole owner in the shape of the State of Lower Austria, HYPO NOE Landesbank can look ahead to the future with confidence. ■

REFINANCING AT HYPO NOE LANDESBANK

- Annual capital market funding needs of about EUR 1bn
- One of Austria's largest covered bond issuers
- Benchmark bond issues – secured and unsecured
- Issuer of green bonds
- Diversified refinancing sources thanks to solid customer deposits

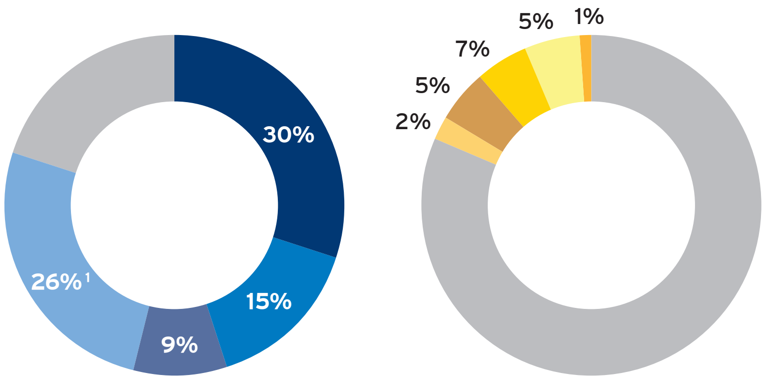
INFORMATION

Visit our new investor relations website at **ir.hyponoe.at/en/**, where you can also sign up for our investor relations newsletter. If you have any questions, you can reach the Investor Relations team at **investorrelations@hyponoe.at**.

Stable footing

80% of total assets have an NPL ratio of just 0.07%

HYPO NOE Group – assets by department at 31 December 2020



80% of the HYPO NOE Group's total assets are accounted for by low-risk loans – with an NPL ratio of **0.07%**.

The remainder of the portfolio is highly diversified.

- **30%** Public Finance
- **15%** Leasing
- **9%** Housing Development
- **26%** Treasury & ALM

- **2%** Housing and Commercial Property Austria
- **5%** Real Estate Project Finance
- **7%** Retail Customers
- **5%** Corporate Customers
- **1%** Real Estate Services & Corporate Center[2]

EUR 16.4bn

[1]Temporary increase due to participation in the ECB'S TLTRO III programme in June 2020.
[2]Business activities that do not fall under other segments and consolidation effects from intra-Group transactions, where these cannot be recognised in other segments.

Fokus 25: continuously improving together

Launched at the end of 2018, the HYPO NOE Group's Fokus 25 organisational development programme is designed to enhance customer service quality and internal processes, drive forward digital innovation and foster a corporate culture shaped by mutual respect by 2025. The Bank's vision, mission and values, as well as its strategy and management principles were fine-tuned in a process involving a range of stakeholders.

THREE QUESTIONS FOR… Matthias Charwat, Head of HR, HYPO NOE Landesbank

Mr Charwat, how closely were employees involved in Fokus 25?
Very. Their contributions were pored over in the focus groups and larger teams, with each employee given the opportunity to have their say in an online vote. In autumn 2020 we conducted an employee survey. We felt that was important as we wanted to gauge the overall mood and responses to the process and the outcomes. We will conduct the survey every two years from now on.

What specific steps did it give rise to?
Employees can now opt for a four-day working week: two days instead of one day a week working from home and the opportunity to reduce their working hours. In autumn 2020 we initiated 360° feedback. This online tool is designed as a way for senior management, heads of department and team leaders to gather feedback on their leadership style from their employees. The findings will serve to strengthen our management principles and competences under the Fokus 25 programme.

How is Fokus 25 changing the corporate culture?
In addition to promoting mutual respect and encouraging people to work as equals, it is about participation: the times of one person dictating the path and everyone just following along are over. Management is more complex as a result, and decisions are – and should be – up for discussion. Employees are encouraged to play a more proactive role. This is not always easy for those involved, but it is very much part of working together to achieve a shared goal: everyone pulling together in the same direction and feeling like they are part of the Group.

Matthias Charwat, Head of HR, HYPO NOE Landesbank

Adding value with start-ups

INNOVATIVE ONLINE TOOLS. Digitalisation is delivering lots of useful innovations – for customers and the Bank's employees alike. Matthias Förster, Head of Sales Strategy, and Klaus Tauber, Head of Operations, talk about current opportunities and future plans.

What was the greatest digitalisation milestone that HYPO NOE Landesbank achieved in 2020?
MATTHIAS FÖRSTER: Without doubt it is the new Wohnrechner housing project cost calculator, which we launched in October. Our advisers are always being asked: "What will my dream home really cost me?" and "How am I going to be able to afford it?" – and these are exactly the kinds of questions that it answers.

KLAUS TAUBER: In terms of day-to-day operations, digitalisation of paper-based workflows in the HR Department represents a major step forward. We developed the software we use for staff appraisals ourselves – the solutions available on the market were either too expensive or didn't offer what we really needed. Until now, people had to keep a record of continuous training activities on various Excel and Word forms. But now all of these measures are stored in a database, which enhances planning efficiency.

What digital products and processes are in the pipeline?
FÖRSTER: At the moment, we're working very hard on enhancing the Wohnrechner. The next batch of functions are being developed in consultation with customers. At the same time, we're working on all-digital property loans. In future, we want every step of the process to be available digitally, from the initial offer to signing the contract. And not just for retail customers, but for corporate customers and the public sector, too. Our customers can then decide whether they would prefer to go to a branch, or take the digital option instead.

TAUBER: In addition to "real" digitalisation projects, we are also channelling internal resources into automated robotics processes. Even though this technology has a finite useful life, in many cases it means certain processes do not have to be handled manually. In future we will be reconfiguring numerous processes – from managing service orders from our 24/7 banking app to data quality assurance.

Klaus Tauber (left) and Matthias Förster are focused on developing smart products and simplifying processes.

"With HYPO NOE, we were able to bring a bank with a great deal of housing-finance expertise on board. This allowed us to implement a really innovative solution quickly and easily – one that covered everything from calculating construction or project costs, to generating non-binding financing quotes at the press of a button."

Werner Seidel, founder of start-up MeinBau, on developing the new Wohnrechner housing project cost calculator

What role do start-ups play in the development of new online tools?
FÖRSTER: A very big one. As far as our core housing loans product is concerned, we are developing our own digital solutions from scratch, but with other products, such as mobile banking apps, we are working closely with leading software providers. We teamed up with start-up MeinBau for our Wohnrechner project, which helped us gain completely new insights while also ensuring that we brought the product to market quickly. Both sides benefited from the process. We're also planning collaborations like this with start-ups in the future: they help us to add tangible value for our customers in a short space of time.

What are the challenges and opportunities brought about by digitalisation?
FÖRSTER: In our industry, digitalisation has led to the emergence of many new competitors in the shape of numerous online banks, fintech firms and software providers. As the state bank for Lower Austria we are countering this trend by focusing our expertise on core areas of our business, where we are opening up new sales channels and creating efficient, user-friendly tools.

TAUBER: In our banking operations, we have a very clear goal: automation through end-to-end digital processes. This enables us to save money while delivering a more efficient service for customers. The challenge here is that digitalisation isn't some kind of greenfield scenario; it has to take established processes and systems into account. Digital processes should not be an exact replica of their analogue counterparts, nor should they run in parallel. Pinpointing the right time to make the changeover isn't always easy.

What direction is the digital journey heading in?
FÖRSTER: Customers' needs and preferences will go on to define our offerings more than ever. And on top of that, the goal is to open up digital access to our core products in all lines of business, while ensuring that we continue to support our customers by giving them the full benefit of our comprehensive expertise.

TAUBER: Employees are the key to digitalisation. They are the experts who know the processes inside out and can identify any potential for automation. So, with this in mind, we would like to continue helping them to extend their digital expertise. ■

HOW MUCH WILL MY DREAM HOME REALLY COST?

HYPO NOE Landesbank's Wohnrechner (www.wohnrechner.at), housing project cost calculator is a first on the Austrian market. It gives prospective homeowners or homebuilders a detailed overview of all the costs associated with their renovation or new-build project, including information on monthly payments. It's as easy as 1-2-3. The Wohnrechner tool is only available in German, as HYPO NOE Landesbank does not service any retail customers outside Austria.

1.

First, enter the key data for your project: does it involve a house or an apartment? What is the purchase price? How big is your deposit?

2.

Next, the online tool asks for further details: What is your monthly income? How important are things like good food, nice clothes and great holidays for you?

3.

After crunching the numbers it provides a tailored mortgage quote including monthly repayments. On request, a HYPO NOE Landesbank home loan expert can offer you support and advice for the next step of the journey.

Sustainable business practices

RESPONSIBLE. Strong ethics guidelines for loan approvals, safeguarding employee health and wellbeing, reducing CO_2 emissions: HYPO NOE Landesbank adds social and environmental value through a diverse blend of measures.

HYPO NOE Landesbank is one of the most sustainable regional banks in the world – as confirmed by none less than respected sustainability ratings agency ISS ESG. For years now, the bank for Lower Austria has been awarded top ratings by leading agencies. This comes in recognition of the comprehensive measures that the Group has implemented over the years in order to meet its responsibilities towards society, the environment, its investors and employees.

Focus on non-profit housing. Approvals of loans and investments are subject to clear ethics guidelines and business principles. HYPO NOE Landesbank supports the areas that in its view deliver the greatest benefits to society, such as social and environmentally-friendly housing and cultural projects. This policy specifically excludes finance for nuclear or coal-fired power plants, the arms and tobacco industries and sectors that harm the environment. The Group exercises particular caution when it comes to its involvement in socially and environmentally sensitive sectors such as energy, mining, forestry and agriculture.

Responsible employer. HYPO NOE Landesbank's employees represent the capital gained from its successful business operations. The Group supports its people with numerous continuing training and development measures and healthcare initiatives. Employees are invited to participate in sport and fitness programmes, and take advantage of a free, anonymous personal coaching scheme.

Shrinking CO_2 footprint. To promote the continuous reduction of its carbon footprint, the Bank has committed to achieving a number of binding goals by 2025 under its Group-wide environmental and climate strategy. The aim is to halve the Group's CO_2 emissions by then. This will be achieved by gradually reducing the size of the vehicle fleet, cutting paper consumption and pursuing comprehensive energy and waste management policies. An interdepartmental working group will evaluate prospective environmental measures on an ongoing basis, as well as canvassing employees for their green ideas.

Visit www.hyponoe.at/sustainability for further information.

TOP RATINGS FOR SUSTAINABILITY

In the first quarter of 2020, ISS ESG (formerly oekom research) upgraded the Group's sustainability rating from C to C+ and again confirmed its Prime status. As a result, HYPO NOE Landesbank is currently ranked number one in Austria and number four worldwide in ISS ESG's listing of 279 public and regional banks.* Sustainability agency imug has awarded HYPO NOE Landesbank a positive BB sustainability rating. HYPO NOE Landesbank's rfu qualified status once again confirms the Group's adherence to a raft of sustainability criteria.

* Peer group: financial service providers/public and regional banks; source: ISS ESG (as of 16 March 2020)

High-powered banking: HYPO NOE's St. Pölten headquarters is also a mini solar-power plant.

Claudia Mikes, Head of Investor Relations/ Sustainability

THE THREE PILLARS OF SUSTAINABILITY

Financing projects that add value for society

- Green housing and social infrastructure
- Ethics guidelines and business principles as a basis for loan approvals

Reduction of the Group's carbon footprint

- Environmental and climate strategy
- Sustainability working group

Responsible employer

- Preventive healthcare for employees
- Professional and personal development

COMMENT

The challenges of climate change: managing risks, taking opportunities

Climate change not only presents a danger for people and planet, it also poses significant risks for the financial sector. In addition to physical sustainability risks such as hail, flooding and drought, banks primarily need to address transitory risks in their loan portfolios – the risks associated with the changeover to a low-carbon economy.

Disruptive innovations can lead to a loss of competitiveness, while new laws and taxes can call into question the viability of established business models. The probability of default owing to stranded assets, which businesses may find themselves burdened with as changes in technology and society pass them by, could increase.

Green paradigm shift. Climate change has triggered a fundamental shift towards sustainable business practices - this is reflected in the behaviour of consumers and investors alike. Major institutional investors have started setting decarbonisation targets for their portfolios, and demand for green bonds is increasing exponentially.

Green finance as an opportunity. HYPO NOE has always operated in accordance with strict social and environmental guidelines, and as a result, climate risk is correspondingly low for the majority of the loan portfolio. Climate change brings threats, but climate protection is a source of opportunities. The former need to be fully understood and carefully managed, while the latter can be exploited for the benefit of the planet. And HYPO NOE's decision to issue green bonds is a case in point.

Elderly residents and young families live side by side at the Generationenhaus development in Pfaffstätten.

A boost for green living

GREEN BUILDING. HYPO NOE Landesbank financed a non-profit housing facility built to environmentally friendly passive-house standards in Pfaffstätten.

The market town of Pfaffstätten is located on the southeastern fringe of the Vienna Woods, in the district of Baden. Wohnungseigentümer Gemeinnützige Wohnbaugesellschaft m.b.H. (WET) was behind the construction of a 34-apartment block on Josef-Glanner-Gasse. It is home to residents from multiple generations: 19 units are designed for assisted living for elderly people, and ten are intended as affordable starter homes for young people; the remaining five units provide living space for families. In addition to benefiting from affordable rents, all residents have their own balcony or garden, too.

GREEN BUILDINGS

- make a valuable contribution to creating sustainable living space
- are among the top 15% of the most carbon-efficient buildings in Austria
- achieve excellent energy certification standards
- meet the strict requirements for Lower Austrian housing subsidies

Comfortable and affordable living in Pfaffstätten.

“High social and environmental standards are among the reasons why non-profit housing is such a mainstay for HYPO NOE Landesbank.”

Michael Swoboda, Head of Housing Development

Eco-friendly. The modern property meets passive-house standards, fulfilling the strict social and environmental requirements set out in the Austrian Wohnungsgemeinnützigkeitsgesetz (Non-profit Housing Act). This means that the building is particularly energy-efficient, environmentally friendly and also comfortable – the climate-friendly controlled ventilation system creates pleasant living conditions.

Finance for green buildings like this is part of HYPO NOE Landesbank's financing and sustainability strategy. And the Bank has been awarded klimaaktiv Partner status by the Austrian Federal Ministry for Sustainability and Tourism for its commitment to protecting the environment.

Trusted partners – low risk.
HYPO NOE Landesbank extended subsidised loans and bank loans amounting to around EUR 4.8m for the Pfaffstätten project. Housing subsidies made up EUR 3.3m of the total. "Not-for-profit housing associations like WET are usually long-established companies with very good credit ratings," says Philipp Weber, HYPO NOE Landesbank's project manager. The Bank has long-term partnerships with many such associations. HYPO NOE Landesbank benefits from long loan maturities, usually of 35 years, and the dependability of its customers – perfectly aligned with its low-risk business model.

In relationship manager Philipp Weber's view, non-profit housing projects are something special for a different reason: "It's great to be a part of the entire process, from the tender to the provision of financing, and to see for myself how every single cent reaches the people it's meant for. The handover of the apartments is always a special day for the new residents. What's more, in Pfaffstätten we have elderly people and young families virtually living next door to one another, which fosters a sense of togetherness. Here, we're creating something important, something sustainable."

Q&A WITH
Christian Rädler, WET Management Board spokesman

Why did you choose HYPO NOE Landesbank as your financing partner for the Pfaffstätten project?
"HYPO NOE won the tender for the project financing. We see the Bank as a reliable, equitable partner. It appreciates the value of non-profit housing, and can build on stable and progressive foundations thanks to its close ties with the State of Lower Austria. For the WET Group, it's very important to have steady and dependable business partners who prioritise a regional focus, sustainability and a customer-driven approach."

"It's not every day that you finance an elite university"

LEASING PARTNER. Two new office and laboratory buildings are due to open at the Institute of Science and Technology Austria (IST Austria) in Klosterneuburg by 2023. HYPO NOE Leasing is providing the State of Lower Austria with financing for the project.

Klosterneuburg-based IST Austria conducts top-level basic research.

Thanks to IST Austria, the small town of Maria Gugging near Klosterneuburg has quietly built a reputation as a leading international scientific centre. The institute carries out basic research in physics, mathematics, computer science and life sciences, as well as training the next generation of elite scientists. It is one of only a handful of research institutes worldwide that can award PhDs, and scientific papers published by IST staff regularly win international awards.

Expansion plans. 54 international research teams are currently based at the site, and the aim is to increase the number to 90 by 2026. This is why the campus is gradually being expanded. Two new office and laboratory buildings are due to open, one in June 2021 and the other in February 2023. The construction costs are around EUR 134m. The State of Lower Austria has concluded a 28-year lease agreement (a duration of 25 years plus the three-year construction phase) with HYPO NOE Leasing GmbH for both buildings.

IST AUSTRIA: FACTS AND FIGURES

- Campus opened in 2009
- **54 research teams** specialising in mathematics and computer science, physics, chemistry, neuroscience and biology
- **787 employees,** including 54 professors and 222 students (2020)
- **Researchers from over 70 countries,** English as the working language
- More than **2,300 scientific publications to date**
- **Ranked third in the 2019 Nature Index,** the global research ranking published by science journal Nature

Hans-Peter Krammer is hoping to conclude further agreements with IST Austria.

"Financing like this is put out to tender in accordance with the Austrian Bundesvergabegesetz (Federal Public Procurement Act) Structuring the financing is no mean feat, because in contrast to standard loans, we have to take a range of complex economic, tax-related and legal factors into consideration," says Hans-Peter Krammer, who is managing the project on behalf of HYPO NOE Leasing. "Offering fixed financing conditions over such a long period is also difficult. Then there are various public bodies such as the construction advisory board or contracting committee which need to be involved in project execution."

For the two laboratory facilities, the HYPO NOE subsidiary also commissioned the various tradesmen and construction engineers – from architects to tilers – and handled all of the payment transactions. Krammer hopes that HYPO NOE Leasing will play a part in further extensions of the IST Austria campus: "It's not every day that you finance an elite university". ■

LEXICON

What is "Maastricht-neutral" financing?

As the market leader in public infrastructure finance, the HYPO NOE Group and its subsidiary HYPO NOE Leasing act as partners to the federal and state governments, as well as over 400 local authorities. In 1992, the EU member states signed a treaty on financial management practice in the Dutch city of Maastricht. Since then, the Maastricht criteria have played an important role in public finance. Under the treaty, only EU countries whose public finances meet the strict Maastricht criteria – including, for example, a deficit target of 3% of GDP – are permitted to participate in monetary union.

For this reason, HYPO NOE Landesbank and its subsidiary HYPO NOE Leasing offer public-sector entities various forms of "Maastricht-neutral" financing for the construction and operation of social infrastructure. In effect, only the lease payments made during the term of the agreement are reported in the public budget. In addition, the federal and state governments and local authorities benefit from the transfer of risk to a private partner. HYPO NOE Leasing transfers the risks it faces from construction and operation to reliable expert partners from the construction and facility management industries.

Public-private partnership (PPP): Under these contractually agreed, long-term partnerships between the public sector and private-sector companies, the latter provide the necessary resources such as capital and equipment. For instance, HYPO NOE Leasing has assumed overall responsibility for the construction, financing and operation of the school campuses currently under construction in the Seestadt and Aspanggründe areas of Vienna.

Property leasing: This is a common form of leasing where the lessor finances construction and receives regular lease payments from the lessee. Pyhra local council chose this solution for the construction of a kindergarten and primary school, which was overseen by HYPO NOE Leasing.

Equipment leasing: Technical medical devices are often leased under this kind of arrangement. For instance, the Lower Austrian health agency NÖ Landesgesundheitsagentur (previously known as NÖ Landeskliniken Holding) leases x-ray machines, MRI scanners and operating theatre equipment for its hospitals from HYPO NOE Leasing. ■

One of the office buildings currently taking shape.

Export finance for a master butcher

ALL-ROUND SUBSIDIES EXPERTISE. For long-established Viennese company Radatz, subsidised export financing turned out to be an ideal solution.

Q&A WITH Managing Director Franz Radatz

Mr Radatz, why did you choose HYPO NOE as your banking partner?
"As a family business, we believe it's very important to have a long-standing relationship with a single bank. We aren't trying to make a quick profit, we're aiming for solid, healthy growth. That's why we need a partner we can count on, especially when the going gets tough, and who we can work with openly and frankly to devise solutions that do the job, whatever the circumstances."

Meat products manufacturer Radatz is a true family business: Franz Radatz Sr. opened his first branch with four employees in Vienna's fourth district in 1962. 36 years later, with Franz Jr. at the helm, the company extended its portfolio to include other Austrian classics like Leberkäse meat loaf with the acquisition of Stastnik. Today, the company employs 890 people and its range includes more than 700 products. Radatz has 34 branches: 22 butcher's shops and 12 wholesale meat stores in Vienna and the surrounding area.

Good advice. HYPO NOE Landesbank acquired Radatz as a new customer in 2020. "This shows that big companies are also more than happy to put their faith in us," comments Head of Corporate Customers Markus Pieringer proudly. The meat products manufacturer did not expect the EUR 2m loan to take the form of lower-cost export finance, including support from the Austrian federal government. Many Radatz and Stastnik products are available in REWE Group (Merkur, Billa and Penny) and Lidl Austria stores. These international chains also sell the products in their outlets in other European countries, such as Germany, Slovakia, Croatia and the Czech Republic. At present, Radatz exports 9.1% of its products.

"For this reason, opening up a credit facility for large exporters with Oesterreichische Kontrollbank was an ideal option," explains Manfred Seyringer, the HYPO NOE subsidies expert who advised Radatz. The credit facility is aimed specifically at Austrian enterprises with more than 250 employees or annual revenue of over EUR 50m. More specifically in this particular case, financial institutions like HYPO NOE Landesbank can raise funds from Oesterreichischen Kontrollbank (OeKB) at reasonable rates and use it to extend loans to their customers on very favourable terms. The Austrian federal government aims to promote exports, so when a company takes out a credit facility with OeKB, the government

Radatz has been selling meat and sausage products to customers in and around Vienna since 1962.

assumes up to 80% of the associated credit risk from the company's bank by means of a bill guarantee.

New focus. "Since 2020, export financing like this has been one of the new focuses of the Large Corporates unit," says Markus Pieringer. In addition, the subsidies specialists at HYPO NOE Landesbank have the inside track on a wide range of other options, including those offered by Austria Wirtschaftsservice (aws). The Bank currently has around 4,600 corporate customers on its books, ranging from one-person enterprises to international groups. Around 200 business customers are classified as large and industrial corporates.

Business banking on the go

After a year-long trial period, HYPO NOE Landesbank officially unveiled its new digital business banking platform at the start of 2020. The platform allows employees of businesses of all sizes to manage company accounts online no matter where they are. "As part of our digitalisation strategy, we wanted to give corporate customers a modern, user-friendly tool that they can use to securely transfer large volumes of encrypted data," explains Markus Pieringer, Head of the Corporate Customers Division. The system uses the international Electronic Banking Internet Communication Standard (EBICS) – a communications and security standard for data transfer, including for payment transactions – making it an ideal option for corporate customers who have accounts with several different banks.

THREE QUESTIONS FOR...

Michael Lackenberger, Managing Director of Schuldnerberatung Niederösterreich gemeinnützige GmbH

What does your company do?
We have 40 employees and we are the only government-approved debt counselling service in Lower Austria. We give free advice to people who are in debt and we also represent them in court during private bankruptcy proceedings.

How do you benefit from HYPO NOE Business?
You can adapt the start page to your needs, and you can see all of the important details at a glance, including all account transactions. Creating new transfer templates, setting up standard orders and clearing transactions using a PIN are easy and self-explanatory.

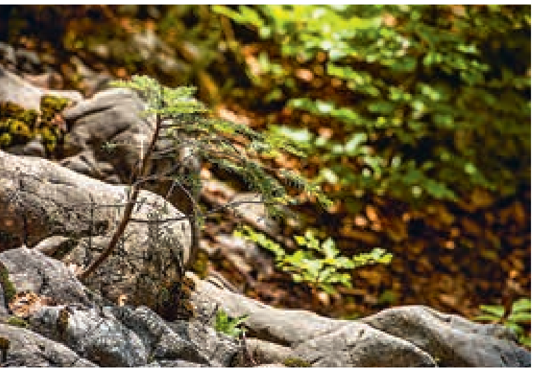
What else was important to you?
The most important factor for us was that we could import payment recipients' account details into the system relatively easily. And that saved us the trouble of having to re-input data.

A strong partner for sport, the environment, the arts and social initiatives

STRONG COMMITMENT. HYPO NOE Landesbank lives up to its social responsibilities through a wide range of activities. We look at two examples.

"Long-term partnerships that have a lasting impact are very important to us."

Petra Skala, Head of Marketing & Sponsorship



DÜRRENSTEIN

Preserving a natural treasure

It is the last great expanse of primeval forest left in the Alps: with its centuries-old beech, spruce and pine trees, the Dürrenstein nature reserve in southwest Lower Austria is home to 45 species of mammal and 70 types of bird. Lynx roam the forest, golden eagles nest there, and reintroduced Ural owls hunt for prey among the trees. Humans are a rare sight in the reserve – access is restricted to guided tours on marked paths. Research is also strictly regulated to ensure that the area's unique natural beauty is preserved for generations to come. Since 2019 HYPO NOE Landesbank has been helping to protect the reserve, parts of which are natural World Heritage sites.

BEACH VOLLEYBALL

Three more top teams on board

HYPO NOE Landesbank teamed up with title-winning duo Clemens Doppler and Alex Horst back in 2017. And now the Bank has extended its support to three more leading teams from the Austrian squad. Katharina Schützenhöfer and Lena Plesiutschnig, Robin Seidl and Philipp Waller, and Martin Ermacora and Moritz Pristauz are all now members of the HYPO NOE sporting family.

The four teams had to put their training on hold due to the coronavirus pandemic. While keeping fit at home, the athletes shared tips for home workouts with fans of the HYPO NOE Landesbank Facebook page. Robin Seidl and Philipp Waller took gold at the FIVB World Tour Baden Open in August 2020. Meanwhile, Doppler and Horst were crowned national champions.

"When a sponsor doesn't cut its budget in difficult times, it underlines the quality of the partnership."

Gernot Leitner, President of the Austrian Volleyball Association

Great teamwork: Association President Gernot Leitner and HYPO NOE Management Board member Wolfgang Viehauser with the top volleyballers sponsored by the Bank.

Annual Report
HYPO NOE Group

GROUP OPERATIONAL AND FINANCIAL REVIEW

for the year ended 31 December 2020

Part II: HYPO NOE GROUP ANNUAL REPORT

1 ECONOMIC CLIMATE

1.1 Global economic and capital market trends

Although sentiment was riding high at the start of 2020 on the basis of strong economic data, the situation changed dramatically in February. A novel coronavirus, later named SARS-CoV 2, started to spread in China, leading the government in Beijing to take drastic measures to prevent it from proliferating. The epicentre of the outbreak was in the province of Hubei, a key economic region where many companies deeply embedded in global supply chains are located. Quarantine measures and the closure of many companies led to a collapse in economic output and major disruption to essential production chains. Initial turbulence on the capital markets and signs of deteriorating business sentiment started to make themselves felt. From China, the virus spread rapidly around the world, making it one of the most dangerous pandemics in recent history. According to the World Health Organization (WHO), the virus had infected more than 83 million people and Covid-19 – the disease it causes – had claimed over 1.8 million lives by the end of 2020. After China, numerous countries imposed lockdown restrictions in the spring, in order to stop their health systems from being overwhelmed. The outcome was the biggest economic slump in the post-war period. According to Eurostat, economic output in the first quarter of 2020 had already shrunk by 3.7%, before contracting by an unprecedented 11.7% in the second quarter. At the same time, share prices worldwide plummeted and risk premiums on corporate bonds rose significantly.

In light of the extent of the crisis and the emerging negative consequences for financial markets, governments around the world forced through comprehensive fiscal support measures. The USA alone authorised a financial support package worth around USD 2.2trn in the first half of 2020, and Republicans and Democrats approved further stimulus amounting to some USD 900bn shortly before the end of the year. In Europe, too, extensive rescue packages were passed – both at the EU and national level – in the form of stimulus packages, short-time working arrangements, lending programmes and direct financial support for companies. The EU also initiated an EUR 750bn regeneration fund branded Next Generation EU, of which EUR 390bn took the form of non-repayable relief grants. According to the European Commission, these measures will be supplemented by a budget of EUR 1.05trn over the next five years, taking the total stimulus package to EUR 1.8trn.

The central banks supported the governments' fiscal efforts by exploiting the available room for manoeuvre on monetary policy to an unprecedented degree. Extensive securities repurchase schemes and financing programmes designed to provide banks and companies with sufficient liquidity were approved. These measures served to stabilise developments on the capital markets, while financial conditions were kept as loose as possible to ensure that the huge increase in new debt could be financed. The European Central Bank topped up its quantitative easing (QE) programme in March 2020 by EUR 120bn while at the same time committing to a EUR 750bn Pandemic Emergency Purchase Program (PEPP), which was increased by EUR 600bn in June and by the same amount in December 2020, and extended until 2022.

The effects of these measures soon made themselves felt. Economic data started to stabilise in May, with the economy going on to rebound strongly over the following months. This was also made possible by the gradual easing of lockdown measures as death rates and infection numbers started to subside. Retail sector revenue, which fell off a cliff in March and April, had returned to a higher level than before the pandemic in June. This recovery was given further impetus by strong economic growth in China and the USA, which fuelled European exports.

A period of recovery in the third quarter, which saw Eurozone growth reach a historic high of 12.5% (Eurostat figures), was followed by another downturn. Hopes that the expected second wave would be easier to manage, and that drastic measures would not be necessary as a result, proved unfounded. On the contrary, not only did the number of new infections rise, the number of patients requiring intensive care and death rates also reached new highs. The fresh round of lockdown measures introduced by many governments led to another decline in economic output in the fourth quarter of 2020.

Against the backdrop of this recessionary environment, the temporary decline in the eurozone inflation rate was to be expected. One of the main factors behind this was a significant decline in the price of crude oil. Prices dropped from around USD 65 a barrel at the start of the year to below USD 20 per barrel in early April. According to Eurostat, the inflation rate for the eurozone turned negative, from 1.4% at the start of the year to -0.3% in September 2020.

The US elections had no discernible influence on the economy or on developments on the capital markets. Donald Trump was voted out of office after four years, and his Democratic challenger Joe Biden was inaugurated as the 46th President of the United States of America on 20 January 2021.

The end of the year brought a number of positive developments. Thanks to fast-tracked authorisation procedures for Covid-19 vaccines as well as significant financial investment in research and development, the first vaccines were approved and administered in the second half of December. This was a decisive breakthrough in overcoming the pandemic once and for all in the long run. Significant headway was also made regarding the United Kingdom's departure from the European Union. After four difficult years of Brexit negotiations, the EU and the United Kingdom were able to reach a last-minute agreement on trade.

Although the economy went through its worst year in post-war history in 2020, it was predominantly a positive one for the capital markets, with the majority of asset prices continuing to rise. This can largely be attributed to the measures introduced by central banks and their expansionary monetary policies. Historically low interest rates worldwide buoyed stock markets and increased the appetite for high-risk bonds. The scope of the crisis and expansionary steps taken by central banks saw gold prices reach historic highs.

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

1.2.1 Austria and Germany

The coronavirus pandemic led to massive declines in Austria and Germany in 2020 – the HYPO NOE Group's core markets – primarily in exports and private consumption. In its December forecast, the Oesterreichische Nationalbank (OeNB) predicted a drop in real gross domestic product (GDP) for 2020 of EUR 7.1% for Austria and 5.6% for Germany (Eurozone average: decrease of 7.8%). After a significant dip in economic output in the first half of the year, the third quarter was characterised by an exceptionally strong recovery driven by pent-up demand. However, the second wave of the pandemic stopped the recovery in its tracks in October.

In a year-on-year comparison, the economic effects of the Covid-19 pandemic in Austria can be seen most clearly in lower exports (down 11.8%), a drop in household consumption (down 8.8%) and muted investment activity by businesses (capital investment was down 4.1% on the comparative period). This was in stark contrast to the jump in the saving rate from 8.2% to 13.7%. According to Eurostat, joblessness rose by 0.8% to 5.3% in 2020. Under the national definition used by the Public Employment Service Austria (AMS), unemployment went up by 2.8 percentage points to 10.2%. Extended several times, the short-time working scheme – which affected 300,000 workers in December – prevented the figures from increasing any further. The hardest-hit sector was tourism, which faced a decline in the number of overnight stays of at least 36% – it had accounted for around 7% of economic output in Austria in previous years. Real disposable income contracted by 3% year on year.

The sharp economic downturn and the anti-cyclical support measures put in place as a result mean that Austria's budget deficit is forecast to hit 9.2% of GDP, following a surplus of 0.7% a year earlier. At 83.3% of GDP, public debt is expected to come out 12.2 percentage points higher than the previous year. The picture is similar in Germany, with an increase in the budget deficit to 8.1% and a higher public debt ratio of 70%. The indebtedness of households and businesses in the HYPO NOE Group's core market is still well below the eurozone averages, at 65.3% and 107% of GDP respectively.

1.2.2 Federal states

At the level of the individual Austrian federal states, the depth of the recession varied depending on the structure of their economies. States where tourism, exports and industry accounted for a greater proportion of induced economic impact were hardest hit by the Covid-19 measures. According to UniCredit Research, the contraction ranged from 9.5% in Tyrol to 6% in Burgenland. Lower Austria was somewhere in the middle, with a decline of 7.5%. The Institute for Advanced Studies (IHS) put the drop in economic output in Lower Austria at 6.6%.

With the budget situation much improved in all federal states in recent years, significant net funding deficits as a result of the pandemic were budgeted for in 2020. The operating surplus for 2020 at state level was revised downwards from EUR 2.8bn to a shortfall of EUR 1.5bn. Managing the health and economic crisis is currently the focus of each state's policies and the targets in the stability pact have been temporarily suspended. Internal estimates suggest that the aggregate financial debt of all states will increase by 15% to around EUR 27bn in 2020.

1.3 Banking sector trends in the eurozone

The Covid-19 pandemic has posed major challenges for the global economy and as a result for the banking sector, too. Particularly at the European level, the banking sector – supported by the ECB's measures and state stabilisation programmes – played a key role in providing liquidity for companies and combating the macroeconomic effects of the pandemic. The regulatory responses to the 2008 financial crisis meant that the sector was more resilient in the face of crisis.

In this regard, the OeNB reaffirmed the robustness of the Austrian banking sector's business model in the Financial Stability Report published in November 2020. The average equity ratio (CET1) of 15.5% at 30 June 2020 confirms that Austrian banks are well placed to withstand further adverse developments. The non-performing loan (NPL) ratio decreased further to 2.0% at the midway point of the year (31 Dec. 2019: 2.2%). Given that an increase in the NPL ratio is expected in the year to come, the OeNB welcomed the recognition of related provisions. Although operating profit fell as a consequence of higher risk provisions, the Austrian banking sector's solid equity base had a stabilising effect.

Austria's banks have also benefited from the restructuring efforts of recent years. As a result of this multi-year consolidation process, the number of banks (main institutions) has decreased by around a quarter since 2012. Although this trend has slowed recently, it is likely to continue throughout Europe.

The prevailing low-interest-rate environment continued to pose a challenge for the entire European financial sector, and this is unlikely to change over the next few years. Of late, the equity ratios of financial institutions in the European Union have stabilised at high levels. Another key trend witnessed during the year just ended was the ongoing digitalisation of products and services for customers. The multi-channel approaches adopted by universal banks – which still include branches, augmented by digital offerings – remained the standard strategy in Europe.

2 COMPANY PROFILE

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

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

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

The Group concentrates on five business segments that play to its core competences: Public Sector, Real Estate Customers, Retail and Corporate Customers, Treasury & ALM, and Real Estate Services (until 31 Dec. 2020). The Group also includes HYPO NOE Leasing, which works with large state and local government customers, as well as HYPO NOE First Facility and selected partners, which look after real estate customers. This allows the Group to provide services across the entire real estate management value chain. Figures for the individual segments, as well as supplementary narrative information, can be found in the Note 2 SEGMENT INFORMATION.

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

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

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

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

3 FINANCIAL REVIEW

3.1 Highlights

- Operating profit[2] significantly higher at EUR 61.6m – up 30.5% on 2019
- "Profit before tax" at EUR 41.2m (9.2% higher year on year) despite risk provisions totalling EUR 20.4m
- Core earnings consistently strong: "Net interest income" up by 9.5% and "Net fee and commission income" by 2.0% compared with 2019 despite a fall-off in personal service due to Covid-19
- Reduction of 4.7% in "Administrative expenses", CIR down to 53.29% as at 31 December 2020
- Conservative risk and capital profile: NPL ratio fell to 0.78% as at 31 December 2020 (31 Dec. 2019: 0.96%), CET1 ratio on budget at 17.92%

3.2 Earnings performance

		2020	2019
Return on equity before tax	Profit before tax/ave. consolidated equity	5.91%	5.60%
Return on equity after tax	Profit for the year/ave. consolidated equity	4.57%	4.51%
Return on assets	Profit for the year/total assets	0.19%	0.21%
Cost/income ratio (CIR)	Operating expenses/operating income	53.29%	59.51%
NPL ratio	Carrying amounts of non-performing financial assets – AC (excl. banks)/financial assets – AC (excl. banks)	0.78%	0.96%

Even though it faced a difficult operating environment, the HYPO NOE Group successfully continued the systematic implementation of its Fokus 25 strategy in 2020. "Profit before tax" climbed by 9.2% to EUR 41.2m (2019: EUR 37.7m). Increased operating income in the customer business and a further decrease in "Administrative expenses" resulted in a significant increase in operating profit, which more than made up for the rise in risk provisions.

Underlying operating performance was healthy yet again. Core earnings – comprising "Net interest income" and "Net fee and commission income" – were 8.6% higher, reaching EUR 146.5m, against the backdrop of zero interest rates and lockdown measures. "Net interest income" put in a strong showing, rising by 9.5% to stand at EUR 129.2m, while the net interest margin improved once more. Although the level of face-to-face customer service dropped due to Covid-19, "Net fee and commission income" grew by 2.0% to EUR 17.4m. The ongoing digitalisation of the product range and the expansion of multi-channel sales supported this trend. In the face of increased market volatility, "Net measurement gains" remained significantly positive, at EUR 3.9m (2019: EUR 5.1m), which reflected the steady decrease in the proportion of assets measured at fair value over recent years.

"Net other operating income" decreased to EUR 11.8m (2019: EUR 14.4m). This reflected the restructuring of the real estate services business and was therefore in line with expectations. The decrease was more than offset by higher earnings from the banking and leasing businesses, in line with the Group's strategy. Operating income[3] rose accordingly, by 5.8% to EUR 166.4m, compared with EUR 157.3m a year earlier. Thanks to ongoing steps aimed at boosting efficiency, "Administrative expenses"[4] fell once again, by 4.7% compared with 2019. As a result, the cost/income ratio (CIR) improved to 53.29% (2019: 59.51%).

The cost of risk (ECL) stood at EUR 20.4m in the reporting period (2019: EUR 9.5m). The ECL models take into account the Oesterreichische Nationalbank forecasts, which predict a decline of 7.1% in Austrian GDP in 2020. The Bank

[2] Operating income less administrative expenses
[3] After exceptional effects (measurement of the contingent additional HETA purchase price, and allocation to the provision for negative interest rates payable by corporate customers): EUR 169.5m (2019: EUR 162.0m)
[4] After exceptional effects (allocation to the resolution and deposit insurance fund, and financial stability contribution instalment payments): EUR 90.3m (2019: EUR 96.4m)

responded to the economic situation and the potential effects of the Covid-19 pandemic on the lending portfolio by increasing Stage 1 and 2 risk provisions to a combined EUR 52.8m (31 Dec. 2019: EUR 33.7m). Risk provisions in the performing loan portfolio as a proportion of risk-weighted assets stood at a solid 136 bps at 31 December 2020 (EU average: 89 bps[5]). It should be noted that the Group has no significant exposures to industries that have been particularly badly affected by the current crisis, as the portfolio is mainly geared towards low-risk financing for infrastructure and housing construction.

3.3 Balance sheet movements

The HYPO NOE Group continued to perform its traditional role in spite of the challenging operating conditions, with new lending of EUR 1.7bn (2019: EUR 1.8bn). This was in line with the budget – in terms of both volume and margins – in spite of the pandemic. Housing finance accounted for more than EUR 800m of the total, and the Group again succeeded in consolidating its position on this market. In line with the Fokus 25 strategy, the Public Sector segment focused effectively on expanding its business in the federal states bordering Lower Austria, while the Corporate Customers segment continued to pursue a targeted growth strategy with an emphasis on export and subsidised finance. As a result of this solid performance in new lending, "Financial assets – AC" rose by 6.6% compared with year-end 2019, reaching EUR 13.2bn (31 Dec. 2019: EUR 12.4bn).

Customer deposits (excl. TLTRO III) went up by 6.6% during the reporting period – and in the course of the Covid-19 crisis – to EUR 5.0bn (31 Dec. 2019: EUR 4.7bn). This underlines the HYPO NOE Group's standing as a safe haven in difficult times. Complementary refinancing on the capital markets was carried out as planned. May 2020 saw the flotation of a mortgage-backed covered bond, which was followed by the placement of HYPO NOE Landesbank's first-ever senior preferred green bond in June. Both benchmark issues were valued at EUR 500m and were heavily oversubscribed. Towards the end of the first half of 2020, HYPO NOE Landesbank participated in the European Central Bank's TLTRO III programme, securing long-term refinancing at an early stage of the year.

Due mainly to the take-up of the ECB tender, "Total assets" temporarily rose to EUR 16.4bn, compared to EUR 14.6bn at the end of 2019. On the equity and liabilities side of the balance sheet, this increase was reflected in the "Financial liabilities – AC" item, which finished the reporting period at EUR 14.3bn (31 Dec. 2019: EUR 12.5bn). On the assets side, there was a corresponding increase in "Cash and balances at central banks" to EUR 1.5bn (31 Dec. 2019: EUR 0.2bn).

3.4 Segment information

Despite the onset of the Covid-19 pandemic, the HYPO NOE Group reported a 9% gain in "Profit before tax", to EUR 41.2m (2019: EUR 37.7m). This highly satisfactory result was reflected in the performance of almost all of the operating segments.

Public Sector

Developing custom financing solutions and providing banking services to state governments, local and regional authorities and public agencies are among the HYPO NOE Group's core competences. Segment profit for the year rose from EUR 16.6m in 2019 to EUR 18.6m in the period under review. This clearly underlines the Group's successful positioning when it comes to advising public-sector and government-linked customers. The segment has responded successfully to the increased pressure on margins in its low-risk lines of business by focusing on efficiency gains with a view to reducing administrative expenses. Positive developments in the customer derivatives market led to an improvement in net gains on financial assets and liabilities. The Covid-19 pandemic and the resulting need for allocations to provisions for ECL did not have a significant impact on the Public Sector segment during 2020 due to its strategic focus.

[5]Source: European Banking Authority (EBA); most recent figure: 30 June 2020

Real Estate Customers

The Real Estate Customers segment – another mainstay of the HYPO NOE Group's business model – also put in a strong performance. This was down to an improvement in operating profit, which led to a significant gain in operating income[6], to EUR 40.1m (2019: EUR 30.7m), as a result of higher core earnings. Net interest income rose particularly sharply due to the increased asset volume and margins. The need to recognise additional provisions in response to the Covid-19 pandemic resulted in a rise in impairment losses.

Retail and Corporate Customers

The Retail and Corporate Customers segment also reported an upturn in net interest income due to a larger loan book, which was mainly driven by private, mortgage-backed housing finance. The segment accounted for the lion's share of Group "Net fee and commission income", at EUR 13.2m (2019: EUR 13.3m). This contribution remained virtually unchanged in 2020 despite the fall in the number of customers visiting branches due to the Covid-19 situation and the negative financial consequences faced by the Group's customers as a result of the pandemic. Profit before tax was negative by EUR 3.3m (2019: profit of EUR 6.5m) due to a number of factors, including the effect of the pandemic on the segment's earnings. These effects were felt in the shape of net losses on financial assets and liabilities, mainly due to direct write-offs, as well as increased allocations to ECL provisions, which more than doubled during the year to EUR 10.2m (2019: allocations of EUR 3.8m) as the coronavirus spread across Europe.

Treasury & ALM

Thanks to proactive liquidity management, interest rate risk positioning within strict risk limits and the utilisation of available money market opportunities – in particular the TLTRO III programme, for which the ECB adjusted the terms in the course of the Covid-19 pandemic – the segment recorded a significant increase in net interest income to EUR 27.7m (2019: EUR 22.9m). Although the situation on the capital markets was tense at times during the pandemic, two benchmark issues were completed on very attractive terms in 2020 (one covered bond and one green bond), which underscored the markets' positive perception of the HYPO NOE Group.

Real Estate Services

Due to the pandemic, the segment faced a decline in revenue which it responded to by means of proactive management approaches aimed at reducing administrative expenses. In spite of Covid-19, the segment reported an increase in pre-tax profit to EUR 2.1m (2019: EUR 1.3m); successful project development activities at property development company NOE Immobilien Development GmbH (NID) made a significant contribution to this result.

Descriptions of the business segments and a discussion of their performance can be found in Note 2 SEGMENT INFORMATION.

3.5 Equity

In effect since 2014, Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR) – including several amendments, most recently Regulation (EU) No 2020/873, and related EBA delegated acts – as well as the directive on access to the activity of credit institutions (Capital Requirements Directive IV, CRD IV), which is currently being transposed by way of the Austrian *Bankwesengesetz* (Banking Act) and various national orders, require the determination of banks' consolidated own funds, and consolidated regulatory own funds requirements in accordance with IFRS and with the regulatory scope of consolidation.

Consolidated eligible capital in accordance with the CRR was EUR 691.3m as at 31 December 2020 (31 Dec. 2019: EUR 666.3m).

Excess equity excluding buffers stood at EUR 382.8m as at 31 December 2020 (31 Dec. 2019: EUR 388.5m), compared with a capital requirement of EUR 308.5m (31 Dec. 2019: EUR 277.8m). The Tier 1 capital ratio in accordance with Article 92(2)(b) CRR and the total capital ratio in accordance with Article 92(2)(c) CRR were 17.92% as at 31 December 2020

[6]Composed of net interest income, net fee and commission income, net gains or losses on financial assets and liabilities, net other operating income and net gains or losses on investments accounted for using the equity method

(31 Dec. 2019: both ratios 19.19%), and were identical to the fully loaded ratios (31 Dec. 2019: both fully loaded ratios 19.19%).

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

The accelerated introduction of the adapted arrangements for the SME supporting factor (Art. 501 CRR) has not yet been employed. Likewise, no use has yet been made of the new regulations on the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income (Art. 468 CRR).

Consideration was given to the reintroduction of the transitional arrangements for zero weighting of exposures to central governments that are denominated in a Community currency but not a domestic currency of a member state (Art. 500[a] CRR), and this had a corresponding positive impact on the own funds requirement for credit risk.

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

3.6 Cost/income ratio

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

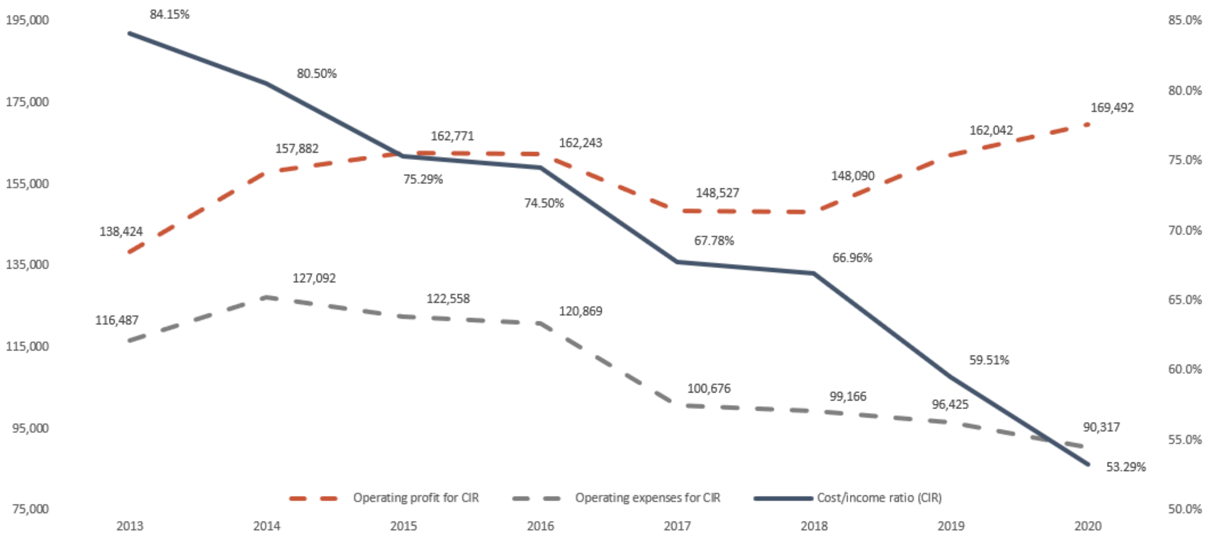
Operating expenses are based on the figure for "Administrative expenses", and in 2020, as in the previous year, the following exceptional, non-recurring components were stripped out: (1) the contribution to the resolution fund; (2) the contribution to the deposit insurance fund; and (3) the instalment of the financial stability contribution spread over the years 2017-2020.

Operating income is composed of "Net interest income", "Net fee and commission income", "Net gains or losses on financial assets and liabilities", "Net other operating income" and "Net gains or losses on investments accounted for using the equity method". In 2020, as in the previous year, it excluded the following exceptional, non-recurring components: (1) valuation of the "HETA contingent additional purchase price" (see also Note 4.7 Fair value disclosures); and (2) the additional allocation to the provision for negative interest rates on corporate loans (see Note 6.2 Provisions).

	2020	2019
Net interest income	129,153	117,910
Net fee and commission income	17,369	17,022
Net gains on financial assets and liabilities	3,926	5,128
Net other operating income	11,752	14,420
Net gains on investments accounted for using the equity method	4,237	2,793
Extraordinary effects	3,055	4,768
Operating income	**169,492**	**162,042**
Administrative expenses	104,844	110,067
Extraordinary effects	-14,527	-13,642
Operating expenses	**90,317**	**96,425**
CIR	**53.29%**	**59.51%**

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

CIR since 2013*



*Retrospectively adjusted, as described above

3.7 Non-performing loan (NPL) ratio

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

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Financial assets – AC (excl. banks)	12,199,975	11,426,518
Non-performing loans	95,418	110,177
NPL ratio	0.78%	0.96%

The Group's very low NPL ratio is explained by its business model, which favours low-risk business and risk-aware lending, as well as the systematic approach taken by Intensive Care Management.

3.8 Liquidity coverage ratio

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Liquidity buffer	1,756,777	1,239,880
Total net cash outflows	880,354	789,032
LCR	199.56%	157.14%

4 HUMAN RESOURCE MANAGEMENT

For service providers, professional expertise, performance, experience, and the dedication and commitment of every single employee are key drivers of success. Without the contribution of the Group's staff, the developments of the past few years would not have been possible. Management therefore attaches great importance to nurturing a positive corporate culture, as well as rapid and transparent communication on all decisions that are taken.

Deriving centralised measures from the outcomes of the employee survey conducted at the end of 2019 and implementing the defined action areas were the focus of human resource management activities during the period under review. In particular, introducing greater flexibility in terms of working location and working hours, as well as the operational implementation of the values and management principles developed in the course of the organisational development programme formed the focus of HR policy activities.

As a responsible employer, the HYPO NOE Group has a particular responsibility to safeguard the health and wellbeing of its employees. The Group is committed to building a positive, respectful and appreciative work climate that combines a high degree of personal responsibility with creativity and flexibility. In this regard, the focus is on training and development, workplace health promotion, maintaining an appropriate work-life balance and securing jobs. In order to continuously improve its family-friendly HR policies in a sustainable and structured manner, HYPO NOE Landesbank für Niederösterreich und Wien AG underwent a voluntarily *berufundfamilie* audit and was awarded basic certification in mid-December 2020.

4.1 Human resources in 2020: facts and figures

At year-end 2020 the HYPO NOE Group had 714 employees (2019: 742), 26 of whom were on parental leave (2019: 40). The difference is largely due to the deconsolidation of HYPO NOE Real Consult GmbH. The workforce of 714 comprised 407 male and 307 female employees (2019: 425 male and 317 female). In terms of full-time equivalents (FTE), there were 639.3 employees at year-end (2019: 660.6). Excluding non-active employees, the headcount falls to 608.3 FTE as at 31 December 2020. The remaining representative offices abroad were closed with effect from 30 June 2020.

The table below shows the changes in headcount over time.

	2020							2019						
	HC			Ave. HC p.a.	FTE			HC			Ave. HC p.a.	FTE		
	Total	m	f	Total	Total	m	f	Total	m	f	Total	Total	m	f
HYPO NOE Landesbank für Niederösterreich und Wien AG	595	318	277	589.7	528.0	305.1	222.9	584	310	274	588.9	514.0	296.9	217.1
HYPO NOE Real Consult GmbH	0	0	0	16.5	0	0	0	24	11	13	32.3	20.8	9.8	11.0
HYPO NOE Leasing GmbH	28	10	18	28.8	24.0	9.4	14.6	28	10	18	29.1	24.2	9.4	14.8
HYPO NOE First Facility GmbH	86	74	12	88.8	82.8	72.8	10.0	99	88	11	101.0	95.3	85.9	9.4
HYPO NOE Versicherungs-service GmbH	3	3	0	3.8	3.0	3.0	0	5	4	1	5.8	4.8	4.0	0.8
HYPO NOE Immobilien Beteiligungs-holding GmbH	2	2	0	2.0	1.5	1.5	0	2	2	0	2.6	1.5	1.5	0
HYPO NOE Group	714	407	307	729.6	639.3	391.8	247.5	742	425	317	759.7	660.6	407.5	253.1

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

4.2 Organisational and staff development

In the past financial year, the focus was on incorporating the values and management principles developed as part of the Fokus 25 organisational development programme into everyday corporate life. The four central pillars of the programme – corporate culture, customer relationships, strategic alignment and digitalisation – must be brought life to ensure they are made more visible. Motivation and satisfaction can only flourish in a setting shaped by respect, trust and development opportunities.

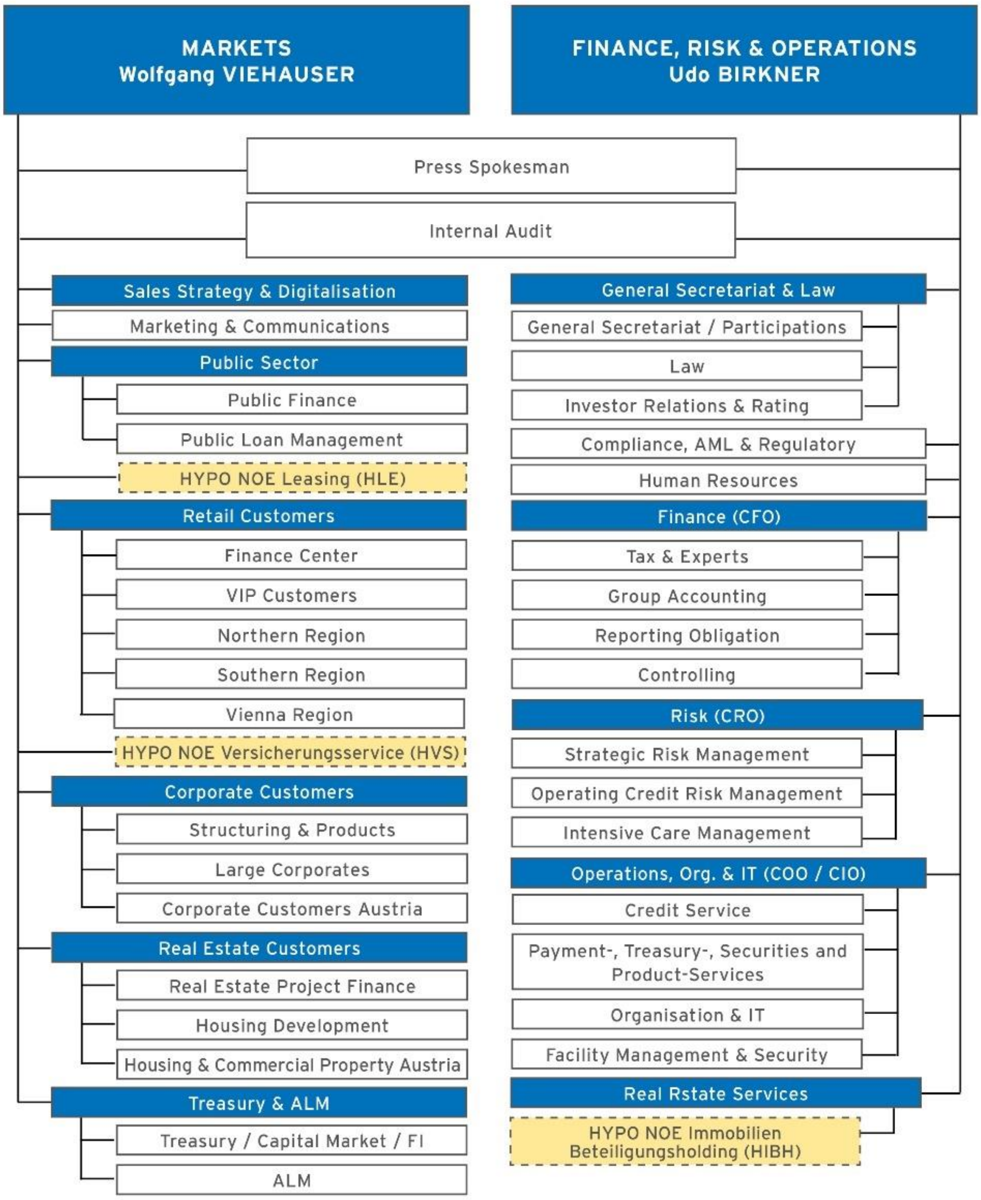
Core tasks of the Human Resources Department are finding the right candidates, with appropriate qualifications, to fill vacancies, integrating them into the organisation, identifying and realising their potential, and helping them to develop new abilities. Staff development is therefore a key component of the HR strategy. Mandatory annual staff appraisals have been merged with the performance appraisal and will take place at the start of each year from 2021. Besides providing an opportunity to pinpoint development and career opportunities, these talks will also be used to review performance over the past year and agree targets for the year ahead. The development agreements indicate specific training needs, and in turn training offers suited to given target groups are developed. Besides specialist training, personality development is a high priority at the HYPO NOE Group. There are a large number of courses on subjects such as leadership, communication, health and team building. 360° management feedback was introduced in 2020 to enhance the management culture and improve leadership skills. Under this approach, feedback is a key component of the learning process and a core element of personal and professional development. The main focus of the specialist training in 2020 was on the HYPO 1 and HYPO 2 foundation qualifications in banking, prescribed by the collective agreement for employees of Austrian state mortgage banks, as well as recertification of all investment advisors, European Investment Practitioners (EIPs®) and insurance advisors.

In the lending business, the certified housing advisor training programme was successfully finalised.

The in-house management training series *Durchstarten als Führungskraft* gives new branch managers all the tools they need to get off to a good start in their managerial careers. Detailed examination of management and leadership aspects provided targeted preparation before the participants took up their new roles.

The Covid-19 pandemic led to a significant increase in the number of staff working from home. In response to this development, specialist courses on virtual meetings and remote management were introduced. In addition, the majority of training activities were switched over to virtual formats in the second half of 2020.

The organisational chart at 31 December 2020 was as follows:



4.3 Human Resources Department's sustainability mission

The HYPO NOE Group is committed to helping its staff recognise and prevent health risks. The Group uses a variety of measures to counter the risk of stress and overwork. For instance, a free employee assistance service is available to all staff. This includes anonymous coaching and advice on professional and personal matters. The long-running *Körpersignale und Stress* seminar for non-executive employees and *Ressourcenbewusst leben und führen* course for management staff were again fixtures in the Department's annual training programme. They help participants recognise personal stress patterns and develop individual approaches to coping with stressful situations. The compatibility of work and family has always been a vital consideration at the HYPO NOE Group. In order to continuously improve the family-friendly personnel policy in a sustainable and structured manner, in 2020 HYPO NOE Landesbank für Niederösterreich und Wien AG underwent a voluntarily *berufundfamilie* audit and was awarded basic certification in mid-December 2020 which is valid until the end of 2023. The audit is an Austrian adaptation of the original audit process, aimed at improved family and career compatibility, developed in Germany on behalf of the HERTIE foundation (www.beruf-und-familie.de).

5 RISK REPORT

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

6 RESEARCH AND DEVELOPMENT

As a financial services provider, research and development in the industrial sense only plays a minor role at the HYPO NOE Group. The Group constantly invests in innovation and fine-tuning, in line with its guiding principle of offering customers continuous improvements in all lines of business and in product quality.

7 EQUITY INVESTMENTS AND BRANCH OFFICES

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

Details of changes in the scope of consolidation are provided in Note 10.1 Scope of consolidation.

As of 31 December 2020, HYPO NOE Landesbank für Niederösterreich und Wien AG had no foreign branches. The representative offices in Budapest, Bucharest and Prague were closed on 30 June 2020 following last year's redefinition of the Group's core market. HYPO NOE Landesbank has operated a branch office at Wipplingerstrasse 4, 1010 Vienna since 2008.

HYPO NOE Landesbank had 27 branches in Lower Austria and Vienna as at the end of the reporting period.

8 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (ICS)

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

8.1 Control environment

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

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

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

- compliance with laws and guidelines
- the efficiency and effectiveness of the Group's business activities
- the reliability of operational information, and
- optimal protection of the assets, finances and earnings of the HYPO NOE Group, as well as the accuracy of financial reporting.

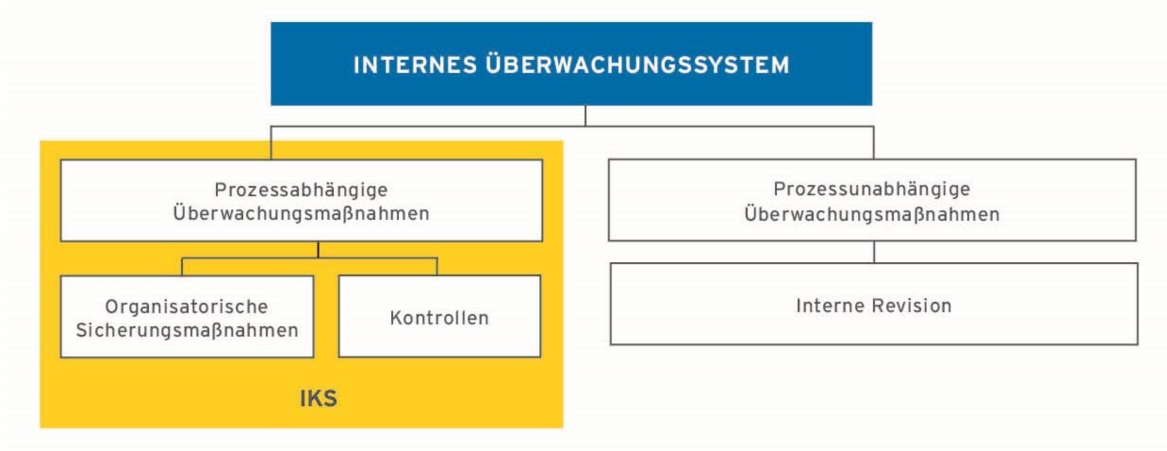
8.2 Risk assessment

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

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

8.3 Control measures

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



These are all measures implemented at organisational level as well as one-off measures – either within a department or across several departments – that are designed to prevent errors, fraud and damage to the HYPO NOE Group, for example:

- Signature regulations, decision-making authorities
- Role and permission systems in IT applications
- Daily, weekly and monthly reports

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

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

The following primary control measures are carried out:

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

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

The system encompasses accounting-related instructions and processes designed to ensure accurate and appropriate recording of events with regard to the following:

- Employment of the Group's assets
- Recording all information required to draw up the annual financial statements, in order to prevent unauthorised purchases and sales
- Risk-based decision-making authorities and monitoring instruments which could have a material impact on the annual financial statements
- Tailoring the chart of accounts to the Group's specific requirements
- Storage of vouchers according to systematic and chronological criteria, providing an adequate audit trail
- Documentation of processes involved in the preparation of the separate parent entity and consolidated financial statements, and the parent entity and Group operational and financial reviews, as well as the related risks and controls
- Sufficient numbers of suitably qualified staff in departments involved in the accounting process;

standardised training and development programmes to ensure that staff have the necessary skills for their roles; senior executives serving as role models in terms of integrity and ethical standards is the foundation of the control system

- Clear demarcation of the main functions involved in the accounting process and their management as separate departments
- Unambiguous assignment of departmental responsibilities
- Protection of computer systems against unauthorised access by means of appropriate control mechanisms
- Auditing of accounting data for their completeness and correctness on a sample basis
- Checks of all data-entry processes related to accounting in accordance with the four-eye principle; checks are carried out by Group Accounting, or by trained staff in the various operational departments, in accordance with internal regulations
- Daily or monthly plausibility checks and preparation of trial balances for posting lists, revenue reports, valuation lists and lists of Banking Act/Capital Requirements Directive IV requirements, etc. provided by the computer centre, which subjects them to automated checks
- IT security checks as one of the cornerstones of the internal control system; firewalling of sensitive activities by taking a restrictive approach to IT authorisations

8.4 Information and communication

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

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

8.5 Monitoring

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

As part of the process-independent measures, internal auditing is clearly distinct from the ICS. All internal audit activities are subject to Group-wide standards based primarily on the Austrian Banking Act, the FMA Minimum Standards for Internal Auditing and international best practice. The independent Internal Audit Department regularly reviews compliance by the various departments and other organisational units with the internal regulations. In 2020, the audits carried out in Accounting/Group Accounting focused on credit services for asset/clearing accounts and expense accounts, and reporting.

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

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

The ICS is regularly adapted in line with changed circumstances and requirements. Like any control system, however well it is designed, operated and monitored, the internal accounting control system can only provide adequate and not absolute assurance that the figures reported are accurate. Identification of any changes required in the light of new risks, and ongoing monitoring of the system and assessment of its effectiveness are seen as key tasks. The main priorities in this respect will be enhancing the effectiveness and efficiency of operational processes, minimising operational risk by making improvements to those processes, and refining the ICS.

9 INVESTOR RELATIONS

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

In light of the global Covid-19 pandemic, personal dialogue with investors and analysts was mainly replaced by telephone and video conferences in 2020. Besides the regular results announcements, attention mainly focused on the issue of the Group's first green bond and the pandemic's impact on the Bank. An extensive information campaign was staged in the run-up to the placement of the senior preferred benchmark green bond, in the form of global investor calls and one-on-ones. International investors and analysts also took part in an earnings call scheduled to coincide with the announcement of the results for 2019.

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

10 GROUP NON-FINANCIAL STATEMENT

Pursuant to section 267a Austrian Business Code, the HYPO NOE Group is obliged to prepare a consolidated non-financial statement. Under section 243b Austrian Business Code, the parent company HYPO NOE Landesbank für Niederösterreich und Wien AG is also required to prepare such a statement. The disclosures are published in consolidated form below. The non-financial statement was prepared in accordance with the Austrian Sustainability and Diversity Improvement Act (sections 243b and 267a of the Austrian Business Code). The HYPO NOE Group has published a sustainability report drawn up in accordance with the GRI Standards since 2014. This year, it will publish a separate sustainability report at a later date. A copy of the report and other related information can be found on the HYPO NOE website.

The following non-financial statement provides information necessary for understanding the Group's course of business, earnings, position and the effects of its operations, as well as information connected with the environment, social and employee-related matters, respect for human rights and combating corruption and bribery. Supplementary information can be found elsewhere in this annual report. The topics addressed below were selected on the basis of the materiality analysis performed for the 2014 sustainability report. These topics were reassessed internally and externally in 2018 in terms of the significance of their impacts on operations. The results formed the basis for the current statement.

10.1 Description of the business model

HYPO NOE Landesbank is the largest and oldest-established Austrian state mortgage bank[7], and has been a dependable commercial bank, stable state bank and specialist mortgage lender for over 130 years. Using its strong position in Lower Austria and Vienna as a springboard, the Bank operates primarily in Austria and Germany, as well as in selected markets elsewhere in the European Union.

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

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

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

Thanks to its focus on low-risk infrastructure and housing finance, the HYPO NOE Group is well-placed to weather the effects of the coronavirus crisis, although uncertainties remain concerning the duration and macroeconomic impact of the Covid-19 pandemic. The governments of Austria and Germany – markets that are important for the Group – have signed off on comprehensive stabilisation measures designed to limit the impact on the real economy.

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

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

10.2 Sustainability in the Group's core business

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

Inclusion criteria enshrined in the ethical guidelines and business principles are intended to promote business activities in areas that the Group believes generate the largest benefits for society, while exclusion criteria help to identify sectors where the Bank chooses not to operate, in the interest of social responsibility. These guidelines, which also form part of the Group's credit risk management manual, can be found on the HYPO NOE website.

Sustainability criteria are documented in the core banking system as part of the lending process. This information enables HYPO NOE to identify which loans have a sustainability element to them. The suitability of a potential green bond is assessed on the basis of the Group's Green Bond Framework.[8]

10.2.1 Products and services

The Group concentrates on five business segments that play to its core competences: Public Sector, Real Estate Customers, Retail and Corporate Customers, Treasury & ALM, and Real Estate Services. The Group also includes HYPO NOE Leasing, which works with large state and local government customers, as well as HYPO NOE First Facility and selected partners, which look after real estate customers. This allows the Group to provide services across the entire real estate management value chain.

A key milestone in 2020 was the EUR 500m issue of HYPO NOE Landesbank's first green bond.

The proceeds will be used to finance and refinance green buildings that rank among the top 15% in Austria in terms of carbon efficiency. The focus is on non-profit housing and social infrastructure – HYPO NOE Landesbank's core business. The strong sustainability-related performance of the Bank and its Green Bond Framework has been confirmed in a second-party opinion (SPO) from ISS ESG (formerly oekom research). The green bond was also the first to be certified in accordance with Austria's UZ 49 standard for sustainable financial products.

10.2.2 Partners and sustainable investments

With regard to sustainable investment, the HYPO NOE Group works with partners that enable it to offer environmentally sound and ethical investments in selected funds. The Group has organised a series of training courses and product information events in collaboration with its partners, in order to make sustainable investment opportunities more accessible to a wider audience. In 2020, sales employees received additional training on key aspects of the upcoming clarification and disclosure requirements for sustainable finance. Investment in sustainable funds exceeded EUR 67m at the end of the 2020 financial year.

10.3 Environment

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

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

In order to emphasise its dedication to meeting domestic and international climate goals, in 2018 the Group finalised its environmental and climate strategy (that builds on the current energy strategy), under which it commits to achieving

[8] Details of the Green Bond Framework can be found on the HYPO NOE website.

specific and ambitious targets. Introduction of an ISO 14001-compliant environmental management system was part of this strategy.

In a clear indication of its commitment to meeting its environmental and climate goals, HYPO NOE Landesbank decided to sign up to the Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology (BMK) klimaaktiv 2030 pact.

HYPO NOE Landesbank is also a partner of the klimaaktiv building and refurbishment programme, which supports joint initiatives aimed at promoting sustainable housing construction.

10.3.1 Focus on energy efficiency

HYPO NOE's St. Pölten headquarters features state-of-the-art energy-efficiency measures and meets its own electricity requirements by means of a photovoltaic array that produced over 35,000 kWh of zero-emission power in 2020. There are plans to extend the system's capacity in 2021. The Group's innovative, low-energy head office has received the klimaaktiv silver award, as well as Green Building certification from the EU. Like all of the HYPO NOE Group's offices and branches, the headquarters only uses renewable electricity.

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

10.3.2 Climate-friendly mobility

Reducing emissions from transportation is one of the cornerstones of the HYPO NOE Group's environment and climate strategy. Inspired by creating the "vehicle fleet of the future", the HYPO NOE Group has already slashed CO_2 emissions from vehicular transport by more than 62% since 2015. The number of company cars in the Group fleet was more than halved over the same period. The new car policy specifically promotes the acquisition of low-emission company cars, sending out a clear signal with strict CO_2 limits. The number of e-vehicles in the fleet – currently six – will also be increased.

To help support the move, five rapid-charging stations for staff, and a charging station for event guests and customers are available free of charge at HYPO NOE Group's headquarters.

A further increase in charging capacity is planned for 2021.

10.4 Social and employee-related matters

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

10.4.1 Principles and guidelines for equitable collaboration

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

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

10.4.2 Training and development

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

In 2020, HYPO NOE Group employees completed a total of 1,438 days of training (2019: 2,811 days). Staff training and development is a leading priority for the Group, with an emphasis on enhancing professional expertise as well as personal development, management development and teambuilding. 360° management feedback was introduced in 2020 to enhance the management culture and improve leadership skills. Under this approach, constructive feedback is a central plank of the learning process and a core element of personal and professional development.

10.4.3 Health management

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

In December 2020, the Familie und Beruf Management GmbH board of trustees awarded HYPO NOE Landesbank a *berufundfamilie* audit certificate which is valid until 2023.

The Group uses a variety of measures to counter the risk of stress and overwork. For instance, a free employee assistance service is available to all staff. This includes anonymous coaching and advice on professional and personal matters. Every two years, employees have access to sports medical examinations or alternatively a heart rate variability test, for which they pay a small portion of the cost.

The health of its employees is paramount for the HYPO NOE Group. As such, numerous preventive measures were implemented during the year to provide the best possible protection against coronavirus infection while continuing the Bank’s day-to-day operations. Employees have been taking advantage of the opportunity to work from home for a number of years. Uptake of this working model has increased significantly since the outbreak of the coronavirus pandemic and is now open to all employees. Internal and external appointments have been replaced by video calls and telephone conferences. Employees at the St. Pölten and Vienna offices and within the branch network have been assigned to different teams. Rules for the strict separation of functional units, and for distancing within functional units and access restrictions for individual floors have been introduced at the various locations. Lifts can only be used with special authorisation, and hygiene measures have been increased. Protective Plexiglas screens have been installed at bank branches. Central locations are now off limits to external visitors. A general foreign travel ban has been in place since 25 February 2020. Exceptions are only granted with express approval of the crisis team, provided that they are absolutely necessary for the Bank (e.g. for risk assessment in order to prevent possible damage).

10.4.4 Disabled accessibility/access to financial services

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

10.5 Respecting human rights

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

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

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

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

- the European Convention on Human Rights;

- the labour-related and social obligations of the country concerned;
- the applicable regulations put in place by international organisations, or the relevant UN conventions;
- or the rights of the local population or minorities.

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

The Group has established an internal feedback and complaints database, into which staff must enter all customer complaints. These are analysed on a regular basis, included in the ombudsman's report and evaluated for relevance to compliance issues. This approach helps to minimise the risk of compromising customer privacy as far as possible. There were no significant complaints or breaches related to the handling of customer data in 2020.

10.6 Anti-corruption and anti-bribery measures

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

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

Measures to ensure that all staff act with integrity are reinforced by internal rules, which provide a clear overview of the legal requirements. All employees of subsidiaries and investments in which the Group holds a stake of over 50% are considered officials and are subject to the corresponding strict statutory regulations.

10.6.1 Organisational structure

The permanent functions of WAG Compliance Officer, Anti-Money Laundering Officer and Regulatory Compliance Officer report directly to the Management Board.

10.6.2 Internal compliance codes

Internal compliance codes are regularly reviewed and updated by their authors and cover the entire Group, where necessary. In particular, new regulations and changes in the law are immediately incorporated into the existing guidance and communicated to staff. The following compliance rules and guidelines are in place at present:

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

10.6.3 Raising awareness within the Group

The Group has adopted clear internal anti-corruption guidelines and this area forms an integral part of its compliance rules. Every new employee is obliged to complete an online compliance and anti-money laundering training course within four weeks of joining the Group. All new employees also receive face-to-face training as part of their induction. All current employees must also complete this training at regular intervals. Anti-corruption policy is a core topic in the compliance training, and anti-corruption principles and recommendations are collated and published internally in the HYPO NOE Group Anti-corruption Guideline. In 2020 all HYPO NOE Landesbank employees participated in mandatory compliance courses (annual refresher courses). These courses are intended to raise staff awareness of securities and anti-money-laundering compliance and regulatory matters, with the goal of minimising the risk of breaches of statutory requirements or internal standards. There were no such compliance-related violations during the reporting period.

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

The relevant internal processes must be kept up to date at all times and are optimised on an ongoing basis. Any amendments are implemented as quickly as possible. Under these processes, all invitations to third-party events must be registered and added to the internal event schedule. Compliance is determined using a defined traffic light system. There were no confirmed incidents of corruption in 2020.

10.7 Management of sustainability risks

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

HYPO NOE Landesbank has proactively added the sustainability risks that it has identified to the risk inventory, risk map and the relevant risk documentation. A heat map to classify climate risks associated with financing activities, as well as clear exclusion and inclusion criteria for lending processes have already been implemented as part of the strategy for identifying, measuring, evaluating and managing sustainability risks. In addition, the detrimental effects of extreme weather events are analysed as part of the annual Bank-wide stress test.

Indicator/description	Unit	2020	2019	2018	2017
HYPO NOE GROUP					
ENVIRONMENTAL INDICATORS – carbon footprint[1]					
Material consumption (paper)[2]	kg CO_2-e	16,060	17,064	14,470	15,539
Electricity[3]	kg CO_2-e	0	0	0	0
District heating	kg CO_2-e	129,762	174,233	247,688	252,169
Gas heating	kg CO_2-e	93,835	106,198	140,775	142,364
Passenger vehicle transport total	kg CO_2-e	165,822	280,456	328,627	372,316
Flights	kg CO_2-e	1,269	26,983	44,872	49,885
Rail	kg CO_2-e	326	1,335	3,323	2,878
Total CO_2-e[4]	kg CO_2-e	407,075	606,269	779,755	835,150
CO2-e/employee[5]	kg CO_2-e	570	817	988	1,029

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

Group CO_2 data by scope					
SCOPE 1: Heating energy (gas) and vehicle fleet	kg CO_2-e	259,657	386,654	469,402	514,679
SCOPE 2: Electricity and heating energy (district heating)	kg CO_2-e	129,762	174,233	247,688	252,169
SCOPE 3: Flights, rail and paper	kg CO_2-e	17,656	45,382	62,665	68,302
HUMAN RESOURCE INDICATORS					
Total employees	Head count	714	742	789	812
Female	Head count	307	317	344	361
Male	Head count	407	425	445	451
Managers by level					
Management Board	Head count	2	2	2	3
Management level 1 (until 2017 division coordinator/senior management, from 2018 division head)	Head count	11	10	9	3
Management level 2	Head count	17	17	17	18
Management level 3	Head count	45	45	45	44
Proportion of women on the Management Board	%	0%	0%	0%	0%
Proportion of women on the Supervisory Board	%	33%	25%	25%	25%
Management Board, over 50 years old	%	100%	100%	100%	100%
Supervisory Board, 30-50 years old	Head count	4	3	5	5
	%	33%	25%	42%	42%
Supervisory Board, over 50 years old	Head count	8	9	7	7
	%	67%	75%	58%	58%

Since 2018, the breakdown of managerial staff by level has been presented in greater detail and has included team leaders.

Employment breakdown (excl. employees on parental leave)					
Full-time employees	Head count	513	523	549	569
Female	Head count	143	140	163	177
Male	Head count	370	383	386	392
Part-time employees	Head count	175	179	200	201
Female	Head count	139	141	144	147
Male	Head count	36	38	56	54

Indicator/description	Unit	2020	2019	2018	2017
Employees by category (excluding parental leave)					
Managers	Head count	75	74	73	68
	%	11%	11%	10%	9%
Female	Head count	11	14	15	11
	%	15%	19%	21%	16%
Male	Head count	64	60	58	57
	%	85%	81%	79%	84%
Managers under 30 years old	Head count	0	0	0	2
	%	0%	0%	0%	3%
Managers 30-50 years old	Head count	50	51	47	41
	%	67%	69%	64%	60%
Managers over 50 years old	Head count	25	23	26	25
	%	33%	31%	36%	37%
Employees	Head count	613	628	676	702
	%	89%	89%	90%	91%
Female	Head count	271	267	292	313
	%	44%	43%	43%	45%
Male	Head count	342	361	384	389
	%	56%	57%	57%	55%
Under 30 years old	Head count	104	86	92	82
	%	17%	14%	14%	12%
30-50 years old	Head count	351	378	421	426
	%	57%	60%	62%	61%
Over 50 years old	Head count	158	164	163	194
	%	26%	26%	24%	28%
New employees and staff turnover (31 Dec.-31 Dec.)					
New employees	Head count	110	102	120	64
	%	18%	16%	17%	9%
Female	Head count	37	43	43	25
	%	34%	42%	36%	39%
Male	Head count	73	59	77	39
	%	66%	58%	64%	61%
Under 30 years old	Head count	57	43	43	22
	%	52%	42%	36%	34%
30-50 years old	Head count	44	49	66	35
	%	40%	48%	55%	55%
Over 50 years old	Head count	9	10	11	7
	%	8%	10%	9%	11%

Indicator/description	Unit	2020	2019	2018	2017
Disposals	Head count	134	153	120	115
	%	16%	17%	13%	12%
Female	Head count	43	66	51	40
	%	32%	43%	43%	35%
Male	Head count	91	87	69	75
	%	68%	57%	58%	65%
Under 30 years old	Head count	33	37	28	29
	%	25%	24%	23%	25%
30-50 years old	Head count	65	79	64	61
	%	49%	52%	53%	53%
Over 50 years old	Head count	36	37	28	25
	%	27%	24%	23%	22%

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

Training					
Training days, total	Days	1,438	2,811	2,646	1,982

The amount of training is shown in days due to the differences in standard working hours at the various Group companies.

A breakdown of training days by gender and employee category for the Group as a whole cannot be provided at present.

Sick leave					
Sick leave, total	Days	5,236	7,078	6,316	6,723
Average days of sick leave per employee	Days	7	10	8	8
Occupational accidents	Total	2	7	10	5

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

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

11 GROUP OUTLOOK

11.1 Economic environment

2021 will be defined by the progression of the Covid-19 pandemic, both at the global and the local level. That said, exceptionally expansive monetary and fiscal policies, and breakthroughs with vaccines and medication aimed at combating the coronavirus should prompt a marked upturn in global economic activity. As a result, the fundamental prospects for the next year or two are bright. However, in the short term, conditions will remain difficult due to the level of infections and continuing restrictions aimed at containing transmission of the virus. In view of these factors, it can be assumed that interest rates will remain low for some time, as several central banks recently announced.

In light of continued lockdown measures and stringent entry restrictions on winter tourists coming from abroad in response to the increased level of infections, forecasts for Austria's economic growth in 2021 have been revised. In mid-December 2020, the OeNB predicted that the Austrian economy would grow by 3.6% in 2021. This is in line with the Organisation for Economic Cooperation and Development (OECD) forecasts for eurozone growth. In Germany, GDP is expected to increase by 4.1%.

In Austria's case, the anticipated rebound in 2021 will be driven by an upturn in private consumption, capital investment and rising demand for exports. However, it is assumed that economic activity will only return to pre-crisis levels at some point during 2022. These economic forecasts are based on the assumption of a swift and effective rollout of vaccines and the maximum possible public uptake. In Austria's federal states, bringing forward planned investments could help to mitigate the negative impact of Covid-19 on the real economy and unemployment.

11.2 Outlook for Group performance

Notwithstanding the problematic operating environment brought about by the pandemic, the HYPO NOE Group reported continued strong performance in its underlying operations in 2020. Based on these foundations, the Group expects to post solid results again in 2021. Especially in times of crisis, the HYPO NOE Group's business model has constantly proved resilient thanks to its focus on low-risk infrastructure and housing finance. The Group will therefore continue to systematically pursue its strategy of concentrating on its core business in its core markets, while maintaining a conservative risk and capital profile.

Uncertainties remain concerning the duration and macroeconomic impact of the pandemic. However, the governments of Austria and Germany – both important markets for the Group – have passed comprehensive stabilisation measures that should cushion the blow to the real economy. Although defaults are expected to increase once these government support measures run out, the HYPO NOE Group took the possible effects of the Covid-19 crisis into account in its ECL models and recognised additional risk provisions during the reporting period.

The concerted drive to implement digitalisation measures in banking operations and sales, and an end to the obligation to pay the financial stability contribution instalment mean that "Administrative expenses" are expected to decrease further in 2021.

In its business with public sector customers and housing developers, the Group will continue to press ahead with the expansion of operations in the federal states bordering Lower Austria. In order to diversity risk and sources of earnings, the Bank will maintain its emphasis on cover-pool-eligible financing in EU markets with solid ratings when dealing with international real estate customers. With regard to corporate customers, the Group aims to step up operations in the export and subsidised finance business, and will look to generate further gains in the retail customer business with offerings related to its core housing construction finance product.

Issuance in 2021 will centre on the covered bond and senior preferred segments, in line with the Bank's refinancing needs. The Bank is committed to maintaining the high level of deposits and ensuring a widely diversified refinancing structure.

St. Pölten, 24 February 2021
The Management Board

Wolfgang Viehauser
Management Board Member Markets and
Speaker of the Board

Udo Birkner
Management Board Member
Finance, Risk & Operations

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020 in accordance with IFRS

HYPO NOE Landesbank für Niederösterreich und Wien AG

Part II: HYPO NOE GROUP ANNUAL REPORT

1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Gains/losses

EUR '000	Notes	2020	2019
Interest and similar income measured using the effective interest method		250,022	244,828
Interest and similar income not measured using the effective interest method		187,197	206,768
Interest and similar expense		-308,121	-333,912
Dividend income		55	226
Net interest income	4.2.1	129,153	117,910
Fee and commission income		20,611	20,299
fee and commission expense		-3,242	-3,277
Net fee and commission income	**5.1**	**17,369**	**17,022**
Net measurement gains		3,903	5,049
Net gains on derecognition of financial assets		23	79
Net gains on financial assets and liabilities	**4.2.2**	**3,926**	**5,128**
Other operating income	**5.2**	**31,675**	**37,423**
Other operating expense	**5.2**	**-19,922**	**-23,003**
Administrative expenses	**5.3**	**-104,844**	**-110,067**
Impairment losses on financial assets - IFRS 9 ECL	**4.5.4**	**-20,438**	**-9,514**
Net gains on investments accounted for using the equity method	**10.3**	**4,237**	**2,793**
Profit before tax		41,156	37,692
Income tax expense	7.1	-9,281	-7,291
Profit for the year		31,876	30,401
Non-controlling interests	3.2	-163	-371
Profit attributable to owners of the parent		31,713	30,030

Other comprehensive income

EUR '000	Notes	2020	2019
Profit for the year		**31,876**	**30,401**
Changes in valuation that will not be reclassified to profit or loss		**1,105**	**-2,638**
Equity instruments – FVOCI		-311	-177
Actuarial gains and losses	6.2.3	1,416	-2,461
Changes in valuation that will be reclassified subsequently to profit or loss		**-2,612**	**-4,160**
Debt instruments – FVOCI		-2,325	-2,858
Debt instruments – FVOCI reclassified to profit or loss		-359	-1,307
Hedges (hedge accounting)	4.6.3	72	5
Other comprehensive income		-1,507	-6,798
Total comprehensive income		30,369	23,603
Non-controlling interests	3.2	-163	-371
Comprehensive income attributable to owners of the parent		30,206	23,232

The changes in valuation included in "Other comprehensive income" and all related sub-items are presented net of related tax effects, in accordance with paragraph 91(a) IAS 1.

2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

EUR '000	Notes	31 Dec. 2020	31 Dec. 2019
Cash and balances at central banks	4.3	1,463,942	235,481
Financial assets – HFT	4.3	417,189	438,035
Financial assets – mandatorily FVTPL	4.3	171,312	224,413
Financial assets – FVOCI	4.3	514,991	620,063
Financial assets – AC	4.3	13,230,957	12,417,093
Positive fair value of hedges (hedge accounting)	4.6.3	445,780	436,278
Investments accounted for using the equity method	10.3	31,074	27,510
Investment property	6.1	36,693	38,235
Intangible assets	6.1.1	241	463
Property, plant and equipment	6.1.1	65,475	68,201
Current tax assets	7.1	21,163	26,319
Deferred tax assets	7.3	408	1,162
Other assets	6.3	17,390	38,509
Total assets		**16,416,615**	**14,571,762**

Equity and liabilities

EUR '000	Notes	31 Dec. 2020	31 Dec. 2019
Financial liabilities – HFT	4.4	388,764	406,606
Financial liabilities – FVO	4.4	5,309	4,432
Financial liabilities – AC	4.4	14,274,540	12,522,091
Negative fair value of hedges (hedge accounting)	4.6.3	829,132	767,441
Provisions	6.2	69,367	68,270
Current tax liabilities	7.1	10,052	6,034
Deferred tax liabilities	7.3	22,853	26,238
Other liabilities	6.3	106,237	85,695
Subordinated capital	4.4.1	-	1,453
Equity	3.1	710,362	683,502
Equity attributable to owners of the parent	3.1	701,382	675,087
Non-controlling interests	3.2	8,980	8,415
Total equity and liabilities		**16,416,615**	**14,571,762**

3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 Dec. 2020 EUR '000	1 Jan. 2020	Profit for the year	Reversals	Dividends paid	Other comprehensive income	Other changes	31 Dec. 2020
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	424,706	31,713	50	-3,500	-	-411	452,557
Other reserves composed of:	**6,576**	**-**	**-50**	**-**	**-1,507**	**-**	**5,020**
Actuarial gains and losses	-5,878	-	-	-	1,416	-	-4,462
Debt instruments – FVOCI	11,717	-	-	-	-2,684	-	9,034
Equity instruments – FVOCI	809	-	-50	-	-311	-	449
Hedges (hedge accounting)	-72	-	-	-	72	-	-
Equity attributable to owners of the parent	675,087	31,713	-	-3,500	-1,507	-411	701,382
Non-controlling interests	8,415	163	-15	-	-	417	8,980
Equity	683,502	31,876	-15	-3,500	-1,507	5	710,362

31 Dec. 2019 EUR '000	1 Jan. 2019	Profit for the year	Reversals	Dividends paid	Other comprehensive income	Other changes	31 Dec. 2019
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	398,240	30,030	-	-3,500	-	-64	424,706
Other reserves composed of:	**13,375**	**-**	**-**	**-**	**-6,798**	**-**	**6,576**
Actuarial gains and losses	-3,416	-	-	-	-2,461	-	-5,878
Debt instruments – FVOCI	15,882	-	-	-	-4,165	-	11,717
Equity instruments – FVOCI	986	-	-	-	-177	-	809
Hedges (hedge accounting)	-77	-	-	-	5	-	-72
Equity attributable to owners of the parent	655,419	30,030	-	-3,500	-6,798	-64	675,087
Non-controlling interests	7,978	371	-	-	-	66	8,415
Equity	663,398	30,401	-	-3,500	-6,798	2	683,502

The "Other changes" item includes effects related to the change in non-controlling interests.

4 CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	31 Dec. 2020	31 Dec. 2019
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	235,481	417,130
Profit for the period (before non-controlling interests)	**31,876**	**30,401**
Adjustments for interest income and expense	-129,153	-117,685
Non-cash items from operating activities	**97,733**	**81,044**
Amortisation, depreciation, impairment and write-ups on property, plant and equipment, intangible assets and investment property	6,593	6,467
Allocations to and reversals of provisions and risk provisions	22,961	20,427
Net measurement losses on financial assets and liabilities	-3,903	-5,049
Change in positive and negative fair value of hedging instruments	47,364	42,161
Other adjustments	24,717	17,038
Changes in assets and liabilities due to operating activities	**1,079,916**	**-260,855**
Financial assets – AC	-837,165	-768,629
Financial assets – mandatorily FVTPL	58,635	44,702
Financial assets – FVOCI	101,557	137,730
Other operating assets	-27,431	-29,190
Financial liabilities – AC	1,752,599	412,709
Other operating liabilities	31,721	-58,177
Payments for taxes, interest and dividends	**154,618**	**93,751**
Income taxes refunded/paid	-7,232	-25,027
Interest received	467,151	451,597
Interest paid	-306,029	-333,912
Dividends on FVOCI investments received	55	226
Dividends received from associates	670	707
Dividends received from joint ventures	3	160
CASH FLOWS FROM OPERATING ACTIVITIES	1,234,990	-173,344
Proceeds from sale of/redemption of:	**381**	**965**
Equity investments	41	667
Property, plant and equipment, intangible assets and investment property	340	298
Purchase of:	**-2,415**	**-5,291**
Equity investments	-	-2,409
Property, plant and equipment, intangible assets and investment property	-2,415	-2,882
Proceeds from disposal of subsidiaries	**291**	**151**
CASH FLOWS FROM INVESTING ACTIVITIES	-1,743	-4,175
Dividends paid	**-3,500**	**-3,500**
Repayment of lease liabilities	**-1,286**	**-630**
CASH FLOWS FROM FINANCING ACTIVITIES	-4,786	-4,130
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,463,942	235,481

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

IN ACCORDANCE WITH IFRS
HYPO NOE Landesbank für Niederösterreich und Wien AG

Part II: HYPO NOE GROUP ANNUAL REPORT

1 GENERAL INFORMATION

HYPO NOE Landesbank für Niederösterreich und Wien AG, domiciled at Hypogasse 1, 3100 St. Pölten, Austria is the ultimate parent of the companies included in consolidation. It is registered in the register of companies under FN 99073x.

The Management Board approved the consolidated financial statements for publication on 24 February 2021.

1.1 Accounting standards

The consolidated financial statements of the HYPO NOE Landesbank für Niederösterreich und Wien AG Group (the HYPO NOE Group) for 2020 were prepared in accordance with the International Financial Reporting Standards (IFRSs) as applicable in the European Union pursuant to Regulation (EC) No 1606/2002 on the application of international accounting standards. The requirements of section 59a *Bankwesengesetz* (Banking Act) and section 245a *Unternehmensgesetzbuch* (Austrian Business Code) were fulfilled.

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2020 consist of the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes. The risk report, which contains disclosures pursuant to the provisions on the operational and financial review in section 267 Austrian Business Code, is part of the notes.

The HYPO NOE Group applies uniform Group-wide accounting policies. The reporting currency is the euro. All figures are presented in thousand euro (EUR thsd/EUR '000) unless otherwise stated. The tables below may contain rounding differences. The consolidated financial statements have been prepared on a going concern basis.

1.2 Significant accounting policies

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

Significant accounting policies	Notes	IFRS
Consolidated statement of cash flows	9	IAS 7
Financial instruments I – classification and measurement	4.1, 4.3, 4.4	IFRS 9, IFRS 7, IAS 32
Financial instruments II – loss allowances	4.5.2	IFRS 9, IFRS 7
Financial instruments III – hedge accounting	4.6.3	IFRS 9, IFRS 7
Net interest income	4.2.1	IAS 1
Fair value disclosures	4.7	IFRS 9, IFRS 7, IFRS 13
Provisions	6.2.1	IAS 19, IAS 37
Taxes	7	IAS 12
Net fee and commission income	5.1	IFRS 15
Investment property	6.1	IAS 40
Leasing	6.1	IFRS 16
Intangible assets and property, plant and equipment	6.1	IAS 38, IAS 16
Interests in subsidiaries, associates and joint ventures	10	IAS 28, IFRS 10, IFRS 11, IFRS 12
Impairment of non-financial assets	6.1, 10.3	IAS 36

1.3 Estimation uncertainty and judgements

In the subsequent chapters, estimation uncertainties and judgements are denoted by the symbol .

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

- Measuring financial instruments, associates and joint ventures
- Determining impairment losses and gains on financial assets
  (detailed information on the impact of the Covid-19 pandemic can be found in the Note 4.5 Credit risk and risk provisions)
- Defining default
- Performing SPPI tests
- Establishing principles for the transfer of financial instruments (stage transfer)
- Assessing inclusion in the scope of consolidation
- Recognising deferred tax assets attributable to tax loss carryforwards
- Determining fair values
- Determining the useful lives of intangible assets, right-of-use assets, and property, plant and equipment
- Evaluating the effect of first-time application of new IFRSs
- Recognising and measuring provisions

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

1.4 New and amended standards

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

New and amended standards adopted but not yet applied		
Interest Rate Benchmark Reform: Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16	1 Jan. 2021	See details
Proceeds before Intended Use – Amendment to IFRS 16	1 Jan. 2022	None
Annual Improvements 2018-2020 Cycle	1 Jan. 2022	See details
Onerous Contracts – Amendment to IAS 37	1 Jan. 2022	Immaterial
Reference to the Conceptual Framework – Amendment to IFRS 3	1 Jan. 2022 *	None
IFRS 17 Insurance Contracts	1 Jan. 2023 *	None
Extension of the Temporary Exemption from Applying IFRS 9 – Amendment to IFRS 4	1 Jan. 2023 *	None

*Mandatory application not yet endorsed by the EU

Definition of Material – Amendments to IAS 1 and IAS 8

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

Interest Rate Benchmark Reform: Phases 1 and 2 – Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16

The euro overnight index average (EONIA) benchmark rate, among others, does not meet the requirements of the EU Benchmarks Regulation, which came into effect on 1 January 2018, and it will therefore be replaced by the new euro short-term rate (€STR). This unsecured overnight refinancing rate for eurozone banks' dealings with financial market participants is 8.5 basis points lower than the EONIA. The LCH and EUREX clearing houses completed the changeover of interest rates on cash collateral for euro-denominated interest rate swaps to the €STR rate at the end of July 2020.

As a consequence of the changeover, bilateral contracts and credit support annexes (CSAs) at the HYPO NOE Group will be adapted in stages until the end of 2021. The resulting measurement differences will be offset by means of compensation payments, which will not have any material effects on the HYPO NOE Group's consolidated financial statements.

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

Annual Improvements 2018-2020 Cycle

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

1.5 Currency translation

Significant accounting policies

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

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

Foreign currency assets amounting to EUR 229,238thsd (31 Dec. 2019: EUR 506,947thsd) and foreign currency liabilities amounting to EUR 856,308thsd (31 Dec. 2019: EUR 686,964) are included in "Total assets".

2 SEGMENT INFORMATION

Significant accounting policies

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

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

The segment reporting is derived from the profit centre accounting of HYPO NOE Landesbank für Niederösterreich und Wien AG (HYPO NOE Landesbank) and the subsidiaries' IFRS financial statements. The same accounting policies as those set out in Note 1.1 Accounting standards are applied to the preparation of these statements.

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

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

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

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

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

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

Segmental analysis as at 31 Dec. 2020, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Group
Net interest income	32,363	34,973	41,844	27,718	219	-7,964	129,153
Net fee and commission income	2,770	1,381	13,150	-12	-4	83	17,369
Net gains or losses on financial assets and liabilities	820	558	-4,778	3,903	-	3,423	3,926
Net other operating income	4,108	3,176	1,729	2,257	8,949	-8,468	11,752
Net gains on investments accounted for using the equity method	124	-	-	-	2,125	1,989	4,237
Administrative expenses	-21,614	-14,523	-45,022	-13,771	-9,195	-719	-104,844
Impairment losses or gains on financial assets - IFRS 9, ECL	-12	-9,979	-10,248	-237	38	-	-20,438
Profit before tax	18,559	15,587	-3,325	19,858	2,132	-11,655	41,156
Income tax expense							-9,281
Profit for the year							31,876
Segment assets	7,298,165	2,605,826	2,000,090	4,336,420	49,162	126,953	16,416,615
Segment liabilities	2,197,534	418,652	2,524,145	10,437,705	4,209	834,370	16,416,615

Segmental analysis as at 31 Dec. 2019, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Group
Net interest income	35,376	26,393	40,246	22,930	364	-7,399	117,910
Net fee and commission income	3,048	1,055	13,347	-465	-5	42	17,022
Net gains or losses on financial assets and liabilities	-1,450	1,012	-14	1,886	-	3,695	5,128
Net other operating income	6,125	2,208	2,008	2,349	11,812	-10,082	14,420
Net gains or losses on investments accounted for using the equity method	-1	-	-	-	1,012	1,782	2,793
Administrative expenses	-24,064	-14,340	-45,309	-14,186	-11,913	-255	-110,067
Impairment losses or gains on financial assets - IFRS 9, ECL	-2,425	-3,283	-3,822	24	-9	-	-9,514
Profit before tax	16,610	13,045	6,456	12,537	1,262	-12,218	37,692
Income tax expense							-7,291
Profit for the year							30,401
Segment assets	7,469,911	2,034,807	1,929,977	2,949,971	53,524	133,572	14,571,762
Segment liabilities	2,397,001	317,027	2,151,489	8,926,353	7,487	772,405	14,571,762

2.1 Public Sector segment

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

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

The Public Sector segment has a business relationship with a major customer in the meaning of paragraph 34 IFRS 8. The client in question is a public authority, and the services provided to it mainly take the form of leases, as well as lending and deposit taking. Dealings with this customer and its allocable group entities, in accordance with the definition of major investments and without recourse to the exemption for sub-groups, generated net interest income of EUR 20.3m during the reporting period. This figure comprises EUR 6.5m from direct business relationships with the customer, EUR 3.0m from direct business relationships with allocable group members, and EUR 10.8m from indirect business relationships in the form of lease refinancing.

2.2 Real Estate Customers segment

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

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

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

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

2.3 Retail and Corporate Customers segment

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

The comprehensive services for corporate customers are aimed both at small and medium-sized enterprises (SMEs) and large companies. A separate, specialised team develops structured product solutions, especially subsidised loans and export finance. Services are provided to retail customers through the branch network in the Group's home Lower Austria and Vienna market, while business with corporate customers is conducted beyond the home market, primarily in Austria and Germany.

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

2.4 Treasury & ALM segment

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

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

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

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

2.5 Real Estate Services segment

Besides conventional banking activities, the HYPO NOE Group provides services along the entire real estate value chain. The HYPO NOE Group's real estate services business comes under the umbrella of HYPO NOE Immobilien Beteiligungsholding GmbH, with operational activities handled by HYPO NOE First Facility GmbH, which is working towards a tighter focus on key accounts in Lower Austria and Vienna, and the public sector. Construction management specialist HYPO NOE Real Consult GmbH, which was part of HYPO NOE Immobilien Beteiligungsholding GmbH, was disposed of in the second half of 2020.

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

2.6 Corporate Center

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

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

Earnings and expenses related to interests managed by the investment management unit are not directly apportioned to any operating segment and are therefore also allocated to the Corporate Center. The businesses concerned include

EWU Wohnbau Unternehmensbeteiligungs-GmbH (EWU), Niederösterreichische Vorsorgekasse AG and Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.

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

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

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

Net interest income in the Corporate Center segment in 2020 includes EUR 3.7m (31 Dec. 2019: EUR 4.1m) in asymmetrical allocations arising from collateral expenses, as well as EUR 3.1m (31 Dec. 2019: EUR 2.3m) in unfavourable structural contribution effects arising from negative variable interest rate indicators on consumer loans.

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

Net gains on financial assets and liabilities were EUR 3.4m in the reporting period (31 Dec. 2019: EUR 3.7m). They related to measurement of the HETA contingent additional purchase price. Details can be found in Notes 4.2.2 Net gains or losses on financial assets and liabilities, and 4.7 Fair value disclosures.

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

A provision was recognised in net other operating income in both 2019 and 2020 for negative interest on corporate loans. Detailed information on this item is provided in Note 6.2 Provisions. Likewise, this item in the Corporate Center segment reflects compensation for the services of the Retail and Corporate Customers segment in connection with internal customers (31 Dec. 2020: EUR 0.9m; 31 Dec. 2019: EUR 1.1m).

3 EQUITY AND CONSOLIDATED OWN FUNDS

3.1 Equity

Significant accounting policies

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

The capital reserves contain share premiums paid in excess of nominal value when shares are issued. The retained earnings reserves required by statute and the articles of association, and the other retained earnings, as well as the liability reserve pursuant to section 57(5) Banking Act, and consolidated profit/loss (comprising the accumulated profit or loss brought forward, the profit for the year and dividends) are reported under "Retained earnings".

EUR '000	31 Dec. 2020	31 Dec. 2019
Share capital	51,981	51,981
Capital reserves	191,824	191,824
Appropriated reserve	94,624	94,624
Unappropriated reserve	97,200	97,200
Other reserves	5,020	6,576
Retained earnings	452,557	424,706
Equity attributable to owners of the parent	**701,382**	**675,087**
Non-controlling interests	8,980	8,415
Total	710,362	683,502

As was the case a year earlier, as at 31 December 2020 there were 7,150,000 registered shares of no par value in issue. Of these, 70.49% or 5,040,000 shares were held by NÖ Landes-Beteiligungsholding GmbH and 29.51% or 2,110,000 shares by NÖ BET GmbH. At year-end 2020, the share capital (issued capital) of HYPO NOE Landesbank für Niederösterreich und Wien AG was also unchanged, at EUR 51,981thsd; it is fully paid-up. Every share confers the right to one vote. In 2020 a dividend of EUR 3,500thsd was paid to the owners. This corresponds to a rounded-up dividend yield of EUR 0.49 per share. Management proposes the distribution of a dividend of EUR 3,800thsd for 2020.

The total return on assets as at 31 December 2020 was 0.19% (31 Dec. 2019: 0.21%).

3.2 Non-controlling interests

An overview of the share of earnings attributable to non-controlling interests is given below.

EUR '000	2020	2019
FORIS Grundstückvermietungs Gesellschaft m.b.H.	17	13
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-101	-265
LITUS Grundstückvermietungs Gesellschaft m.b.H.	24	18
PINUS Grundstückvermietungs Gesellschaft m.b.H.	-109	-129
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-18	-20
Adoria Grundstückvermietungs Gesellschaft m.b.H.	10	-
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-8	-15
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	57	70
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	-6	2
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-27	-45
METIS Grundstückverwaltungs GmbH	1	-
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	-4	-
Total	-163	-371

In 2020, there were no non-controlling interests with a claim to a share of other comprehensive income. No dividends were distributed to non-controlling interests in 2020 (2019: nil). Financial information relating to those unconsolidated subsidiaries in which the Group holds non-controlling interests, including the leasing companies, for which the data is aggregated, is shown below.

EUR '000	Subsidiaries with non-controlling interests in the Leasing segment	
	31 Dec. 2020	31 Dec. 2019
Cash and balances at central banks	72	2,137
Financial assets – AC	702,938	655,381
Current tax assets	6	5
Deferred tax assets	1,950	998
Other assets	5,527	17,028
Total assets	710,493	675,548
Financial liabilities – AC	660,518	633,545
Deferred tax liabilities	7,327	5,879
Other liabilities	14,920	13,509
Subordinated capital	2,907	2,907
Equity	24,820	19,709
Equity attributable to owners of the parent	15,840	11,294
Non-controlling interests	8,980	8,415
Total equity and liabilities	710,493	675,548

3.3 Reconciliation of equity

EUR '000	31 Dec. 2020	31 Dec. 2019
Equity according to IFRS financial statements	**710,362**	**683,502**
Divergence from regulatory scope of consolidation (regulatory vs supervisory law)	-725	727
Equity according to FINREP reporting template 51	**709,636**	**684,229**
Deferred taxes on untaxed reserves	-3,903	-3,903
Prudent valuation (simplified approach)	-1,406	-1,620
Intangible assets	-236	-446
Ineligible minority interests	-8,980	-8,415
Intrayear change in revaluation surplus, profit and dividend	-3,800	-3,500
Eligible capital	**691,311**	**666,345**

The following reasons explain the difference between eligible capital and the HYPO NOE Group's equity:

- The scope of consolidation in accordance with the CRR and IFRS is slightly different.
- Deferred tax liabilities, which comprise 25% of the untaxed liability reserves of EUR 15,612thsd, may not be included in equity, as these reserves will be taxable if they are reversed (Independent Financial Senate appeal decision GZ.RV/1669-W/02 of 2003, and paragraph 95a AFRAC 30) and therefore do not fully satisfy the requirements of Art. 26(1) CRR.
- Pursuant to Commission Delegated Regulation (EU) 2016/101 in conjunction with Art. 105 CRR, valuation uncertainties must be considered in relation to items recognised at fair value when using the simplified approach to prudent valuation.
- Article 36(1) CRR states that intangible assets are a regulatory deduction. Due to the slight discrepancy between the scopes of consolidation, the deductions under the CRR (EUR 236thsd) are somewhat lower than the corresponding IFRS statement of financial position item (EUR 241thsd).
- As the minority interests only relate to banks, they are not eligible under Article 81 CRR.
- The proposed dividend is a non-qualifying equity component in accordance with Article 26(2) CRR.

3.4 Consolidated own funds and regulatory own funds requirement

Under Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR) – including several amendments, including latterly Regulation (EU) No 2020/873, and related EBA delegated regulations, as well as the directive on access to the activity of credit institutions (Capital Requirements Directive IV [CRD IV]), which is currently being transposed by way of the Austrian *Bankwesengesetz* (Banking Act) and various national orders – since 2014 it has been necessary to determine banks' consolidated own funds and their consolidated regulatory own funds requirements in accordance with IFRS, as well as the regulatory scope of consolidation.

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

EUR '000	CRR/CRD IV 31 Dec. 2020	CRR/CRD IV 31 Dec. 2019
Share capital	136,546	136,546
Paid-up capital instruments	51,981	51,981
Premiums	84,566	84,566
Reserves, differences and non-controlling interests	556,407	531,865
Retained earnings	444,260	417,536
Other reserves	104,744	104,744
Accumulated comprehensive income	7,403	9,585
Prudential filter: adjustments due to the prudential measurement requirements	-1,406	-1,620
Intangible assets	-236	-446
CET1 capital	691,311	666,345
Additional Tier 1 capital	-	-
Tier 1 capital	**691,311**	**666,345**
Deductions due to investments, pursuant to Arts. 36 and 89 CRR	-	-
Eligible Tier 1 capital	**691,311**	**666,345**
Deductions due to investments, pursuant to Arts. 36 and 89 CRR	-	-
Eligible supplementary capital (after deductions)	**-**	**-**
Total eligible capital	**691,311**	**666,345**
Capital requirement	**308,546**	**277,828**
Excess equity	**382,765**	**388,517**
Coverage ratio	224.05%	239.84%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR (i.e. fully loaded)	17.92%	19.19%
Total capital ratio in accordance with Art. 92(2)(c) CRR (i.e. fully loaded)	17.92%	19.19%
Own funds requirement incl. all buffer requirements	12.62%	13.14%

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

EUR '000	CRR/CRD IV 31 Dec. 2020	CRR/CRD IV 31 Dec. 2019
Risk-weighted measurement basis for credit risk	3,494,795	3,102,800
8% minimum own funds requirement	279,584	248,224
Own funds requirement for open currency positions	-	-
Own funds requirement for operational risk	23,119	23,263
Own funds requirement for CVA risk	5,844	6,341
Total own funds requirement	**308,546**	**277,828**

The Group's total own funds requirement stood at EUR 308,546thsd as at 31 December 2020 (31 Dec. 2019: EUR 277,828thsd), a year-on-year increase of EUR 30,718thsd or 11.1%. This was mainly due to:

- Increased lending to corporate borrowers, and also retail customers. Much of the lending to the latter is mortgage-backed, meaning that it must be reported under a separate exposure class (total own funds requirement: approx. EUR 10,500thsd); this is in line with the evolution of total assets, and in particular with that of the "Financial assets – AC" item.

- Speculative real estate finance in the form of new business with a presale rate that is as yet insufficient (own funds requirement of approx. EUR 16,050thsd). The expiry at the end of 2018 of the transitional period granted by the FMA (up to 31 December 2020) meant that the presale rate of existing business on the books in that financial year had to be checked, and where necessary the assets reclassified as "high risk". This necessary regulatory realignment added approx. EUR 4,950thsd to the own funds requirement.

For example, other effects of the Covid-19-induced "quick fix" CRR, such as the reintroduction of zero weighting for euro-denominated loans to non-euro area central governments, were partly offset by higher own funds requirements due to lease residual values occasioned by large hospital projects.

However, Covid-19-related bridging loans, and partly or fully government-guaranteed support loans were insignificant in both volume and RWA terms. As at year-end, about EUR 17m in guaranteed loans and EUR 0.8m in bridging loans was outstanding.

Capital management

Determination of capital requirements and investment opportunities

Management aims to employ the Company's capital in the interests of its owners by taking a responsible, value-driven approach. The methods primarily employed are budget and scenario analysis. Based on the current capital situation, these take account of specific economic parameters over a five-year, medium-term planning horizon. Among other things, it is necessary to assess whether the risk-bearing capacity (Pillar II) is being kept to, given the planning assumptions made.

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

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

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

Basel Committee on Banking Supervision (BCBS) Paper 277

The above objectives, methods and processes mean that the HYPO NOE Group also conforms to the four components of good practice put forward by BCBS Paper 277 entitled "A Sound Capital Planning Process: Fundamental Elements":

- Internal control and governance
- Capital policy and risk capture
- Forward-looking view
- Management framework for preserving capital

Capital management actions in 2020

No unforeseen capital measures were necessary in 2020. As in the previous reporting periods, most of the profit for the year was retained and used to strengthen the Company's capital base.

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

In order to increase the resilience of Austrian banks against specific systemic risks, the FMA uses section 23d Banking Act to prescribe additional equity buffers for specifically listed domestic banks, under the *Kapitalpuffer-Verordnung* (Capital Buffer Order), in the form of CET1 capital. The latest amendment to the Order was Federal Law Gazette II No. 586/2020. This cut the HYPO NOE Group's buffer requirements to 0.5% (previously 1.0%) of its total risk exposure amount as defined by Art. 92(3) CRR. Member states use these buffer requirements in very different ways, especially in Scandinavia and Southeast Europe.

The phased introduction of the capital conservation buffer pursuant to section 23 Banking Act began in 2016. In place throughout the territory of the Community since 2019, this buffer must consist of CET1 capital, and has represented a constant 2.5% of the total risk exposure amount.

Also since 2016, it has been necessary to take into account the countercyclical capital buffer, likewise in the form of CET1 capital, governed by section 23a Banking Act. Under section 5 Capital Buffer Order, the calculation basis for this requirement is the relevant credit exposures.

As at the end of the reporting period, according to information from the European Systemic Risk Board and the Bank for International Settlements, the countercyclical capital buffers for risk exposures to customers in the host countries below were as follows:

- Grand Duchy of Luxembourg (0.25%)
- Kingdom of Norway (1%)
- Republic of Bulgaria (0.5%)
- Hong Kong Special Administrative Region of the People's Republic of China (1%)
- Slovak Republic (1%)
- Czech Republic (0.5%)

Due to the Covid-19 pandemic, all the countries that had activated buffer requirements at the start of the year sharply reduced or entirely dropped them during the spring of 2020. The Grand Duchy of Luxembourg only plans a slight increase in the buffer to 0.5% in 2021, with effect from 1 January.

In 2020 the HYPO NOE Group was not faced with a significant increase in its own funds needs as a result of the buffer requirements (31 Dec. 2020: EUR 665thsd or 0.02%; 31 Dec. 2019: EUR 1,460thsd or 0.04%). In light of the announced changes, the own funds requirement will scarcely increase up to year-end 2021 given the current composition of the underlying business.

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

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

- The risk of unexpected losses and of expected losses not covered by sufficient assets over a 12-month period
- Underestimation of risk due to deficiencies in risk models
- Risks arising from weaknesses in internal governance, including the internal control system and other process vulnerabilities

The SREP guidelines provide for two benchmarks of banks' capital adequacy: first, the total SREP capital requirements (TSCR) – the sum of the capital requirements under Art. 92 CRR and others to be specified in more detail by the supervisory authorities; and second, the overall capital requirements (OCR), which are the aggregate of the TSCR, the capital buffers and the macro-prudential requirements.

As of mid-May 2019, HYPO NOE Landesbank and the HYPO NOE Group met the latest TSCR target of an additional 1.6% of own funds requirement, set by the FMA. This prescription was not changed in the course of the reporting period. In consequence, HYPO NOE Landesbank and the HYPO NOE Group were obliged to comply with unchanged minimum capital ratios of 5.4% for CET1 capital, 7.2% for Tier 1 capital and 9.6% for total capital.

4 FINANCIAL INSTRUMENTS AND CREDIT RISK

4.1 Recognition of financial instruments

Significant accounting policies

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

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

The quantitative yardstick is whether there has been a modification of the contractual cash flows resulting in a change of more than 10% in the present value of the modified cash flow structure, discounted by the effective interest rate of the original cash flow. In a quantitative pre-analysis, the main indicator of such a change in present value is modifications to the terms where these are not contractually provided for. The qualitative criteria include a change of currency that is not yet established by a contract, a change of debtor, or amendments to clauses affecting SPPI conformity, even if these do not result in a change of more than 10% in present value.

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

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

4.2.1 Net interest income

Significant accounting policies

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

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

EUR '000	2020	2019
Interest and similar income measured using the effective interest method	**250,021**	**244,828**
Financial assets – FVOCI	15,342	18,992
Financial assets – AC	204,864	195,358
Current finance lease income	29,815	30,479
Interest and similar income not measured using the effective interest method	**187,197**	**206,768**
Financial assets and liabilities – HFT	79,811	89,462
Financial assets – mandatorily FVTPL	1,510	2,321
Hedges	103,444	112,989
Other interest and similar income	2,432	1,996
Interest expense	**-308,121**	**-333,912**
Financial assets and liabilities – HFT	-77,708	-86,582
Financial liabilities – AC	-133,242	-148,521
Hedges	-97,077	-98,734
Other interest and similar expense	-91	-68
Lease liabilities in accordance with IFRS 16	-4	-6
Dividend income	**55**	**226**
Total	129,153	117,910

Interest capitalised in accordance with paragraph 26(a) IAS 23 totalled EUR 318thsd (2019: 70thsd). The average capitalisation rate was 1.13% (2019: 1.32%).

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

Net interest income grew in the period under review, despite the turbulent conditions caused by the Covid-19 pandemic. Particularly at the beginning of the year, high lending volumes were generated at an early stage, resulting in higher net interest income. Although capital market costs increased over time, the requisite refinancing was secured on attractive terms. Further optimisation of liquidity management helped to keep the costs of investing short-term excess liquidity low.

4.2.2 Net gains or losses on financial assets and liabilities

Significant accounting policies

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

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

The net gains or losses on the measurement of hedged risk with respect to underlyings (basis adjustment) and the corresponding valuation of the hedges are shown under net measurement gains or losses on hedges (see Note 4.6.3 Detailed information on hedge accounting).

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

EUR '000	2020	2019
Net gains or losses on:	**3,903**	**5,049**
Disposal	829	1,904
Financial assets – AC	350	162
Financial assets – FVOCI	478	1,742
Measurement	1,079	4,113
Financial assets and liabilities – AC	-5,246	-239
Net losses due to non-substantial modification	-1,274	-747
Direct write-offs	-3,827	-42
Financial assets – mandatorily FVTPL	5,534	6,640
Financial assets and liabilities – HFT	1,668	-1,356
Financial assets and liabilities – FVO	-877	-932
Hedges	1,995	-968
Net gains on hedged underlying transactions (fair value hedges)	59,637	61,991
Net losses on hedges (fair value hedges)	-57,642	-62,959
Net gains arising from the derecognition of financial assets	**23**	**79**
Financial assets – AC	23	79
Total	**3,926**	**5,128**

The net carrying amount of financial assets affected by non-substantial modifications changed from EUR 253,510thsd (2019: EUR 38,191thsd) before modifications to EUR 252,237thsd (2019: EUR 37,444thsd) after them.

The "Net losses due to non-substantial modification" item comprises losses of EUR 423thsd (2019: nil) related to measures in connection with the Covid-19 pandemic. Significant contract modifications carried out due to debt moratoriums led to derecognition and re-recognition of financial assets amounting to EUR 87thsd (2019: nil).

The net measurement gains on "Financial assets – mandatorily FVTPL" chiefly arise from remeasurement of the HETA contingent additional purchase price, as well as from the fair value loan portfolio (reported under "Financial assets – mandatorily FVTPL").

The contractual outstanding amount of financial assets written off in 2020 that are subject to execution measures is EUR 15,431thsd (2019: EUR 14,472thsd).

4.3 Financial assets

Significant accounting policies

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

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

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

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

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

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

Lease agreements concluded by the HYPO NOE Group as lessor, which are predominantly classified as finance leases, are also included in "Financial assets – AC". The main determinant of the classification of, and hence the method of accounting for leases is not the legal ownership of the leased property but the substance of the lease. If substantially all the risks and rewards incidental to legal ownership are transferred to the lessee, under IFRS 16 the lease is a finance lease; otherwise it is an operating lease. Instead of recognising the asset, the present value of the future lease payments is recognised, taking account of any residual values. Agreed lease payments are apportioned between the finance charge, recognised in profit or loss, and the reduction in the outstanding liability. The finance charge is reported under "Net interest income" (Note 4.2.1).

Estimation uncertainty and judgments

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

The Group's business models are as follows:

- "Hold to collect" business model

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

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

- "Hold to collect and sell" business model

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

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

Taking the measurement category as a starting point, portfolios are classified according to the business model implemented by the business strategy. With few exceptions, financial assets are carried at amortised cost. The business model test identified only a small proportion of these assets that do not meet the classification criteria (solely payments of principal and interest [SPPI]) or, in the case of interest rates that deviate from the standard, failed the internal benchmark test and consequently cannot be carried at amortised cost.

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

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Cash and balances at central banks	**1,463,942**	**235,481**
Cash on hand	29,814	32,187
Balances at central banks	1,434,129	203,294
Financial assets – HFT	**417,189**	**438,035**
Positive fair value of interest rate derivatives	392,269	415,952
Positive fair value of foreign exchange derivatives	24,919	22,083
Financial assets – mandatorily FVTPL	**171,312**	**224,413**
Loans	99,815	134,353
General governments	2,723	3,416
Other financial corporations	1,465	2,229
Non-financial corporations	66,911	91,902
Households	28,716	36,806
Bonds	71,497	90,060
General governments	37,165	46,091
Banks	34,332	33,782
Other financial corporations	-	10,187
Financial assets – FVOCI	**514,991**	**620,063**
Bonds	512,834	617,448
General governments	372,562	457,991
Banks	123,861	147,330
Other financial corporations	12,440	10,070
Non-financial corporations	3,971	2,057
Equity instruments	2,156	2,615
Banks	-	808
Other financial corporations	1,596	1
Non-financial corporations	560	1,806
Financial assets – AC	**13,230,957**	**12,417,093**
Loans	12,030,153	11,461,809
General governments	4,075,921	4,237,236
Banks	716,167	685,015
Other financial corporations	303,839	294,676
Non-financial corporations	4,711,374	4,135,576
Households	2,222,851	2,109,306
Bonds	1,200,804	955,284
General governments	591,897	514,236
Banks	393,792	380,248
Other financial corporations	165,276	31,224
Non-financial corporations	49,839	29,575
Total	15,798,390	13,935,086

Further disclosures concerning "Cash and balances at central banks" can be found in Note 9 NOTES TO THE STATEMENT OF CASH FLOWS.

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

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

Company name	Interest	Fair value 31 Dec. 2020	Fair value 31 Dec. 2019
Equity instruments		**2,156**	**2,615**
NÖ Bürgschaften und Beteiligungen GmbH	5.82%	874	982
Hypo-Wohnbaubank Aktiengesellschaft	12.50%	722	808
Hypo-Banken-Holding Gesellschaft m.b.H.	12.50%	432	462

4.3.1 Analysis of financial assets by maturities

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Financial assets – HFT	**417,189**	**438,035**
Up to 3 months	170	123
3 months to 1 year	392	715
1 to 5 years	41,325	26,120
Over 5 years	375,302	411,078
Financial assets – mandatorily FVTPL	**171,312**	**224,413**
Repayable on demand	2,184	2,928
Up to 3 months	1,025	22,841
3 months to 1 year	6,080	29,279
1 to 5 years	113,514	92,404
Over 5 years	48,509	76,962
Financial assets – FVOCI	**514,991**	**620,063**
Repayable on demand	2,156	2,615
Up to 3 months	71,258	37,061
3 months to 1 year	30,147	52,767
1 to 5 years	269,386	306,336
Over 5 years	142,043	221,284
Financial assets – AC	**13,230,957**	**12,417,093**
Repayable on demand	171,444	77,928
Up to 3 months	179,731	265,668
3 months to 1 year	1,075,266	1,034,143
1 to 5 years	4,173,472	3,718,832
Over 5 years	7,631,043	7,320,521
Positive fair value of derivatives (hedge accounting)	**445,780**	**436,278**
Up to 3 months	688	613
3 months to 1 year	10,074	17,134
1 to 5 years	119,127	106,870
Over 5 years	315,891	311,661
Other assets	**17,390**	**38,509**
Repayable on demand	2,643	4,319
Up to 3 months	5,131	24,162
3 months to 1 year	1,800	860
1 to 5 years	7,207	3,406
Over 5 years	608	5,761

Receivables falling due within one year from bonds and other fixed-income securities stood at EUR 183,238thsd (31 Dec. 2019: EUR 69,270thsd), and those from bonds issued at EUR 696,890thsd (31 Dec. 2019: EUR 1,247,951thsd).

4.3.2 Supplementary information concerning financial assets

Finance leases (with the Group as lessor)

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Gross investment	**2,553,216**	**2,716,472**
Minimum lease payments	2,320,771	2,484,826
Up to 1 year	195,027	173,690
1 to 2 years	175,664	165,016
2 to 3 years	169,268	158,650
3 to 4 years	164,002	152,286
4 to 5 years	160,160	146,316
Over 5 years	1,456,650	1,688,868
Unguaranteed residual values	232,445	231,646
Unearned finance income	**-355,332**	**-394,647**
Up to 1 year	-39,258	-41,247
1 to 2 years	-36,962	-39,019
2 to 3 years	-34,694	-36,760
3 to 4 years	-32,411	-34,512
4 to 5 years	-30,082	-32,248
Over 5 years	-181,925	-210,861
Net investment	2,197,883	2,321,825

Regional authorities – primarily the State of Lower Austria and Lower Austrian local authorities – account for around 98% (2019: 98%) of the finance leases written (as a proportion of assets). The rest of the lessees are business customers, other public agencies or associations. About 96% (2019: 95%) of the lease assets in question are property, but a small amount of equipment is also involved, often directly related to the real estate financed by the leases. Most of the leased properties are hospitals, care homes, office buildings and schools, while the equipment largely relates to furnishings treated as separate assets, and to medical equipment.

EUR '000	31 Dec. 2020	31 Dec. 2019
Minimum lease payments	2,320,771	2,484,826
Unearned finance income	-355,332	-394,647
Net present value of minimum lease payments	1,965,438	2,090,179
Unguaranteed residual values	232,445	231,646
Net investment	2,197,883	2,321,825

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

Transfer of financial assets

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

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

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

EUR '000	31 Dec. 2020 Transferred assets	31 Dec. 2020 Related liabilities	31 Dec. 2019 Transferred assets	31 Dec. 2019 Related liabilities
Financial assets – FVOCI	**425,100**	**423,639**	**284,599**	**85,138**
Bonds	425,100	423,639	284,599	85,138
Financial assets – AC	**1,511,596**	**1,576,850**	**871,406**	**276,194**
Bonds	919,258	951,694	307,941	69,742
Loans	592,338	625,157	563,465	206,452
Total	1,936,696	2,000,489	1,156,005	361,332

Securities admitted to trading

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

EUR '000	31 Dec. 2020	31 Dec. 2020	31 Dec. 2019	31 Dec. 2019
Securities admitted to trading (assets)	Not listed	Listed	Not listed	Listed
Bonds and other fixed-income securities	-	730,337	-	652,076

4.4 Financial liabilities

Significant accounting policies

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

"Financial liabilities – FVO" contains financial liabilities that are not held for trading, are irrevocably assigned to this category on recognition, and are subsequently measured at fair value through profit or loss. Realised gains and losses, and unrealised measurement gains and losses are recognised in profit or loss. Interest is reported under Note 4.2.1 Net interest income.

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

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

Estimation uncertainty and judgments

HYPO NOE Landesbank took part in the European Central Bank (ECB) TLTRO III programme.

Reporting was implemented to monitor attainment of the necessary targets during the special reference period (1 March 2020 to 31 March 2021) for the ECB special interest rate period (24 June 2020 to 23 June 2021), based on the eligible loans reported monthly to the OeNB, as well as scheduled repayments and an adequate safety buffer. As at the end of the reporting period, the HYPO NOE Group was reasonably certain that the target would be met.

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Financial liabilities - HFT	**388,764**	**406,606**
Negative fair value of interest rate derivatives	364,457	384,718
Negative fair value of foreign exchange derivatives	24,307	21,889
Financial liabilities - FVO	**5,309**	**4,432**
Other financial liabilities	5,309	4,432
Financial liabilities - AC	**14,274,540**	**12,522,091**
Savings deposits	716,966	805,491
Deposits	6,169,085	4,069,398
Banks	2,663,197	705,596
General governments	1,170,664	1,236,316
Other financial corporations	539,135	752,906
Non-financial corporations	785,846	562,681
Households	1,010,242	811,899
Bonds in issue	7,388,489	7,647,201
Covered bonds	1,140,874	1,140,847
Municipal bonds	3,517,013	4,050,800
Other bonds	2,730,602	2,455,554
Total	14,668,613	12,933,129

"Financial liabilities - AC" includes the ECB's third series of targeted longer-term refinancing operations (TLTRO III). The carrying amount in accordance with IFRS 9 as at 31 December 2020 was EUR 1,841,492thsd. Related interest income in 2020 amounting to EUR 7,508thsd is recognised in "Net interest income" (see Note 4.2.1), under "Financial assets - AC" as interest income from liabilities (negative interest expense).

"Financial liabilities - FVO" comprises a liability related to the HETA contingent additional purchase price, which the Group designated as measured at fair value through profit or loss in accordance with paragraph 4.2.2 IFRS 9, so as to avoid measurement and recognition inconsistencies (accounting mismatches) with regard to the financial assets concerned (see "Financial assets - mandatorily FVTPL"). Details can be found in Note 4.7.2 Fair value hierarchy: Level 3 disclosures.

4.4.1 Subordinated capital

EUR '000	31 Dec. 2020	31 Dec. 2019
Subordinated capital	-	1,453
Contributions by silent partners	-	1,453

This category included a contribution to a subsidiary of the HYPO NOE Group (Aventin Grundstückverwaltungs Gesellschaft m.b.H.) from a silent partner with a minimum return independent of earnings. Following the expiry of the subsidiary's property lease for Landesklinikum Horn in accordance with the contract and the subsequent purchase of the property by the lessee, there was no further need for finance through an atypical silent partnership. The silent partnership was therefore discontinued as of 31 December 2020.

4.4.2 Analysis of financial liabilities by maturities

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Financial liabilities - HFT	**388,764**	**406,606**
Up to 3 months	1,078	1,636
3 months to 1 year	289	1,186
1 to 5 years	39,391	26,308
Over 5 years	348,006	377,476
Financial liabilities - FVO	**5,309**	**4,432**
1 to 5 years	5,309	4,432
Financial liabilities - AC	**14,274,540**	**12,522,091**
Repayable on demand or no fixed term	2,401,819	1,935,321
Up to 3 months	403,805	340,225
3 months to 1 year	1,874,076	2,579,403
1 to 5 years	5,731,619	3,713,162
Over 5 years	3,863,222	3,953,979
Negative fair value of hedges (hedge accounting)	**829,132**	**767,441**
Up to 3 months	3,146	2,099
3 months to 1 year	1,609	3,357
1 to 5 years	63,799	63,841
Over 5 years	760,578	698,144
Other liabilities	**106,237**	**85,695**
Repayable on demand or no fixed term	34,537	6,617
Up to 3 months	25,049	19,501
3 months to 1 year	21,099	26,997
1 to 5 years	23,040	27,539
Over 5 years	2,512	5,041
Subordinated capital	**-**	**1,453**
1 to 5 years	-	1,453

4.4.3 Contingent liabilities

EUR '000	31 Dec. 2020	31 Dec. 2019
Liabilities arising from guarantees and provision of collateral	128,231	143,924

4.4.4 Supplementary information on financial liabilities

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

31 Dec. 2020, EUR '000	Coverage required for bonds in issue	Coverage of:		Surplus coverage
		Loans	Securities	
Covered bonds	1,657,865	2,441,372	35,384	818,891
Public sector covered bonds	3,267,692	4,293,081	143,012	1,168,401
Total	**4,925,557**	**6,734,453**	**178,395**	**1,987,292**

31 Dec. 2019, EUR '000	Coverage required for bonds in issue	Coverage of:		Surplus coverage
		Loans	Securities	
Covered bonds	1,147,878	2,027,879	30,132	910,133
Public sector covered bonds	3,826,167	4,121,865	144,455	440,152
Total	**4,974,046**	**6,149,744**	**174,587**	**1,350,285**

EUR '000	31 Dec. 2020	31 Dec. 2019
Assets pledged as collateral		
Cover pool for covered bonds and public sector covered bonds (bond issues)	6,912,849	6,324,331
Covering loans	6,734,453	6,149,744
Securities	178,395	174,587
Marketable collateral (securities) delivered to the collateral custody account with the OeNB (for "Financial liabilities - AC")*	1,228,841	331,711
Non-marketable collateral (loans) transferred to the OeNB (for "Financial liabilities - AC")*	498,831	385,736
**OeNB tenders*	1,841,492	199,300
Securities pledged to the EIB (for "Financial liabilities - AC")	91,200	86,685
Collateral delivered (cash) (for derivatives)	779,619	759,428

*In addition, repurchased covered bonds of EUR 500m were delivered to the OeNB as collateral, which is not recognised in the statement of financial position due to IFRS offsetting rules.

Contingent liability of the State of Lower Austria

Under section 1356 Austrian Civil Code, the State of Lower Austria is liable, as the deficiency guarantor, for all the liabilities incurred by HYPO NOE Landesbank für Niederösterreich und Wien AG up to and including 2 April 2003. Liabilities incurred between 3 April 2003 and 1 April 2007 were covered by the state guarantee, provided that their maturities did not extend beyond 30 September 2017. The guarantee does not cover liabilities incurred after 1 April 2007 or falling due after 30 September 2017. As at 31 December 2020, state guarantees of issues, deposits and other liabilities amounted to EUR 123,681thsd (31 Dec. 2019: EUR 132,566thsd) for the HYPO NOE Group.

4.5 Credit risk and risk provisions

4.5.1 Credit risk

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

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

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

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

Sustainability risks are currently significantly growing in importance, and are therefore recognised as a separate key risk sub-category. The HYPO NOE Group has implemented strict internal standards for socially responsible and sustainable business practices. As a result, critical aspects of sustainability risk have already been incorporated into lending processes. These processes will continue to be refined in future. This will be supplemented by evaluation of further sustainability factors related to credit risk over the next two years. To this end, a central contact person and coordinator has been appointed in the Strategic Risk Management Department. The results of this evaluation will subsequently be reflected in the Group's strategic risk objectives and its operational business and risk management processes.

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

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

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

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

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

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

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

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

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

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

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

IRB approach (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2020	31 Dec. 2019
Credit risk (counterparty, replacement and issuer risk)	-283,421	-255,695

Credit risk analysis

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

The Operating Credit Risk Management Department is responsible for the full range of activities related to the assessment, monitoring and management of all risks associated with on-balance-sheet and off-balance-sheet receivables at the individual customer level.

The main emphasis is on checking the form and content of loan applications and providing second opinions. This department has sole responsibility for confirming rating assessments (apart from those in the low-volume retail lending business).

Operating Credit Risk Management also observes early warning signs (to which it is mainly alerted by Credit Services) in order to spot potential problem customers and initiate countermeasures in good time. If early warning signs appear (e.g. political instability or negative stock exchange announcements), a loan may be designated as a "watch loan". In the event of a significant and lasting deterioration in creditworthiness as compared to the time of initial recognition, the customer is also flagged as "intensive care". Customers with ratings of between 4C and 4E are also classified as watch loans. All watch loan customers are monitored more closely, and their cases are reviewed on a quarterly basis by the Problem Loans Committee. The committee takes any decisions related to exposure policy. As at 31 December 2020, the volume of designated watch loans and lending subject to intensive care stood at EUR 147.7m (31 Dec. 2019: EUR 111.6m). The rise in the level of watch loans is mainly due to developments related to the Covid-19 pandemic.

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

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

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

Credit risk monitoring

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

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

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

The Strategic Risk Management Department also monitors credit risk at portfolio level. The Management Board is kept informed of changes in credit risks by means of monthly credit risk reports, and regular or ad hoc reports on risk-related issues. The Management Board and key management receive detailed information on the Group's risk situation, as well as in-depth reports on selected issues, at meetings of the Risk Management Committee (RICO).

Risk concentration

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

Name concentration risk

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

The calculation of own funds requirements (unexpected loss) with regard to the concentration risk component of credit risk (name concentration), as part of Pillar 2 of the ICAAP, uses the granularity adjustment method. The credit risk is calculated using the formulae for the IRB approach, and adjusted employing a concentration risk factor:

Granularity adjustment (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2020	31 Dec. 2019
Concentration risk inherent in credit risk	-20,151	-16,156

The increase in risk is due to adjustment of the methodology for calculating the two largest concentration risk exposures. This involves taking a different perspective on the risk inherent in components of the various sub-portfolios within the concentrations.

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

EUR '000	31 Dec. 2020	31 Dec. 2019
1	3,083,873	3,239,561
2	2,657,069	2,756,618
3	195,081	190,116
4	171,305	174,695
5	139,416	126,508

Country risk

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

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

Operating Credit Risk Management oversees utilisation of the individual country limits, while monitoring of the portfolio country limits takes place at the quarterly RICO meetings.

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Austria	13,512,410	11,964,117
Germany	427,283	389,024
Poland	236,088	203,629
France	227,100	183,581
Netherlands	202,617	122,186

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

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

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

	Aggregate risk exposures	
EUR '000	31 Dec. 2020	31 Dec. 2019
Cash and balances at central banks	1,451,587	222,814
Financial assets - HFT (held for trading)	415,263	445,806
Financial assets - mandatorily FVTPL (mandatorily measured at fair value through profit or loss, and not held for trading)	147,079	205,225
Financial assets - FVOCI (measured at fair value through other comprehensive income)	443,550	539,694
Financial assets - AC (measured at amortised cost)	12,882,226	12,176,671
Derivatives - positive fair value of hedges (hedge accounting)	82,823	81,446
Tangible assets	78,864	81,426
Intangible assets	20	24
Tax assets	23	-
Other assets	10,354	25,040
Total assets	**15,511,790**	**13,778,146**
Off-balance-sheet	323,410	356,284
Total risk exposure	**15,835,200**	**14,134,430**

Credit risk management

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

The credit risk management system uses the following control units:

	Aggregate risk exposures, EUR '000	
Control units	31 Dec. 2020	31 Dec. 2019
Public Finance	7,671,733	7,940,994
Real Estate Project Finance	964,595	840,444
Treasury/Capital Market/FI	3,094,071	1,734,904
Housing Development	1,551,630	1,221,022
Housing and Commercial Property in Austria	301,214	199,564
Retail customers:	1,296,566	1,151,813
Corporate Customers	955,390	1,045,688
Total	**15,835,200**	**14,134,430**

The control exercised by Operating Credit Risk Management is also based on the credit ratings shown below:

	Aggregate risk exposures, EUR '000	
Rating category	31 Dec. 2020	31 Dec. 2019
1A - 1E:	8,339,254	7,199,615
2A - 2E	4,117,923	3,156,605
3A - 3E	2,903,096	3,385,836
4A - 4E	373,245	264,666
5A - 5E	101,682	127,708
Total	15,835,200	14,134,430

Credit risk management on an economic basis is ultimately in accordance with the Basel segments listed below (these segments do not correspond to the breakdown used in the Bank's segment information, but instead form the basis for allocations to the risk exposure class within the risk warehouse [RIWA]):

	Aggregate risk exposures, EUR '000	
Basel segments	31 Dec. 2020	31 Dec. 2019
Banks	758,460	643,240
Sovereigns	2,162,928	979,925
State governments and local authorities	4,256,673	4,522,995
Multilateral development banks	27,225	29,254
International organisations	34,223	41,018
Public sector enterprises	508,717	330,758
Special purpose finance (income producing real estate [IPRE] and project	1,468,650	1,233,274
Corporates	4,515,174	4,334,191
Retail customers	1,854,179	1,769,304
Religious communities	75,393	74,019
Associations, insurance companies and leasing companies	173,578	176,450
Total	15,835,200	14,134,430

Credit risk mitigation

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

The collateral list shows all permissible forms of collateral in the HYPO NOE Group. The principal categories of CRR-compliant collateral that are relevant to the HYPO NOE Group are guarantees (mainly public sector), mortgages and – to a lesser extent – other pledges. A considerable proportion of the Group's aggregate lending relates to the purchase from the State of Lower Austria of subsidised home loans, which are fully secured by a guarantee from the latter. As a result, the credit risk on these exposures is low.

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

The HYPO NOE Group determines the fair value of mortgage collateral in compliance with the applicable statutory regulations and standards. The Group uses established valuation methods and software for this purpose. Depending on the type of property concerned, the methods employed include the income approach, the comparative value approach, the cost approach, the discounted cash flow method, and a combination of approaches. Standard residential properties are valued by means of an automated, statistically validated system. The relationship manager inputs the property data required for the valuation. The operational department responsible assesses these valuations on a random sample basis. Specially trained and, in some cases, certified assessors value other forms of real estate collateral. If necessary, valuations are performed by externally certified property valuers, and their plausibility internally checked. As of 31 December 2020, the Group had not identified any lasting effects on its real estate portfolio resulting from the Covid-19 crisis.

Property collaterals are initially valued as part of the credit rating process, or at the latest when a loan is disbursed. In the case of commercial properties, collaterals are then tested for impairment annually and, where necessary, revalued; for residential properties, impairment testing takes place every three years. In addition, collateral values are index-linked and reviewed annually on the basis of market data. One-off revaluations of real estate collaterals occur when an exposure is classified as a non-performing loan and

- the valuation is out of date, or
- it was determined using a hedonic approach, or
- there are indications of a material change in value.

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

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

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

Current credit risk situation

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

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

Non-performing loan (NPL) coverage is a key performance measure for banks in connection with financial assets in default. NPL coverage is defined as total Stage 3 risk provisions plus collaterals, divided by the sum of the gross carrying amounts of NPLs (financial assets – AC [excluding banks]). Coverage for the Group as at 31 December 2020 was 75.2% (31 Dec. 2019: 86.6%).

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

Investment risk

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

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

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

IRB approach (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2020	31 Dec. 2019
Investment risk	-8,872	-9,676

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

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

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

The calculation of own funds requirements (unexpected loss) in order to determine foreign exchange risk from a customer's perspective as part of Pillar 2 of the ICAAP follows the IRB approach set out in Art. 153ff CRR. However, use is made of the minimum parameters for PD, LGD and remaining maturity in accordance with Art. 165 CRR.

Variance-covariance VaR, IRB approach (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2020	31 Dec. 2019
Customer foreign exchange risk	-2,289	-2,002

The rating structure of receivables exposed to Swiss franc currency risk, from a customer's perspective, is as follows:

EUR '000	31 Dec. 2020	31 Dec. 2019
Investment grade	175,244	189,905
Non-investment grade	73,269	87,844
Default	9,179	12,469
Total	**257,691**	**290,218**

The largest exposure in the investment grade category relates to a company linked to the State of Lower Austria. The non-investment grade category largely consists of private housing finance. Lending exposed to Swiss franc currency risk was further reduced in 2020.

Other subtypes of credit risk

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

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

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

The migration risk is the risk of a deterioration in a debtor's creditworthiness, taking the form of an increase in the probability of default and a consequent downgrading of the customer's credit rating. It is countered by providing additional equity cover, using the buffer, as part of the risk-bearing capacity calculation. Regular monitoring of migration risk at portfolio level as part of the calculation of risk-bearing capacity (impact of unexpected losses on counterparty risk), and by means of migration matrices (YTD evolution) is an element of the Bank's regular reporting.

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

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

4.5.1 Risk provisions

Significant accounting policies

Calculation method for Stage 1 and 2 expected credit losses

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

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

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

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

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

Calculation method for Stage 3 expected credit losses

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

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

Estimation uncertainties and judgements

Rating models

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

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

Inputs

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

Provided that relevant and material information is available for the classification, justifiable transfers between rating categories can be carried out at the end of the process. Reasons for such transfers include interyear publications that result in a change in the risk assessment, unusual changes in future order volumes, or risks arising from unusual concentrations and the resulting dependence on certain customers or suppliers. In this regard, the Bank also takes into account the impacts of the Covid-19 pandemic on customers' current creditworthiness.

Measures related to Covid-19

The effects of Covid-19 on the Austrian economy, mainly in the form of lockdowns, and the support packages introduced by governments and central banks, are not yet or only partly reflected in the annual financial statements and financial data currently available for customers. For this reason, in the first half of 2020 the HYPO NOE Group analysed the impact of the coronavirus crisis on the various customer portfolios. At the time it seemed that the health-related aspects of the pandemic had been weathered to a certain degree, and the length and severity of the economic fall-out were predictable. The simulated impacts of Covid-19 on the risk provisions recognised for the Group's portfolios were appropriately reflected in the interim financial statements by means of adjustments of the point-in-time (PiT) PD curves.

HYPO NOE's analysis of the impact of Covid-19 was based on a special edition of the Oesterreichische Nationalbank (OeNB) economics journal *Konjunktur aktuell*, entitled *Betroffenheit der österreichischen Unternehmen durch die COVID-19 Pandemie nach Branchen* ("Impact of the Covid-19 pandemic on Austrian companies by industry"; German only), published in April 2020. In its report, the OeNB groups customers in accordance with the ÖNACE classification and calculates a score based on various parameters that reflects the impact of Covid-19. The customers were then ranked by score in descending order and split into four colour-coded groups (red, bright red, yellow and green). This ranking was adapted in line with Bank-specific and process-specific factors in order to model the expected effects on the HYPO NOE Group's portfolios. Finally, the anticipated rise in PD due to the Covid-19 crisis was determined, depending on the industry to which each customer belonged and the customer's stand-alone rating, applying a systemic downgrade of up to three notches. The downgrade was not applied to industries for which up-to-date information already feeds into the rating model, or to customers exposed to low additional Covid-19-related risks because demand for their services remains high. These industries included "retail", "specialised lending", "financial services", "non-profit housing" and "owners' associations". The analysis showed that the average increase in PD resulting from the Covid-19 pandemic was around 80%, which was above the rise in bankruptcies of around 50% caused by the 2008/2009 financial crisis. The reason for this higher expected default rate is that most non-financial companies were hit by the credit crunch and a general lack of confidence in the markets sparked by the banking crisis, and were only indirectly affected by the crisis itself. In the current situation, Covid-19 has had a direct impact on many economic sectors due to the lockdowns imposed. Although governments, central banks and the European Union have launched extensive support packages aimed at cushioning the blow of the crisis, the effects of the coronavirus are currently expected to be more serious than those of the financial crisis.

The systemic rating downgrade was applied in the customer reviews carried out in the fourth quarter of 2020, based on the findings of the Covid-19 industry analysis. Further details can be found in the section "Detailed information on risk provisions", below.

The following tables provide an overview of the HYPO NOE Group's final classification of the various ÖNACE industries according to the impact of the crisis on them (very seriously, seriously and moderately affected).

	Industries very seriously affected by Covid-19
Code	Description
I	Accommodation and food service activities
N79	Travel agency and tour operator activities
S96	Other personal service activities
H51	Air transport
R93	Sports and amusement activities
C31-C32	Manufacture of furniture and other manufacturing
R90-R92	Arts facilities
C29	Manufacture of motor vehicles and parts
C13-C15	Manufacture of textiles and shoes
G47	Retail trade
C18	Printing
C19	Manufacture of coke and refined petroleum products
H49	Land transport
N78	Employment activities
C30	Manufacture of other transport equipment
H52	Transportation activities

	Industries seriously affected by Covid-19
Code	Description
N	Administrative and support service activities
G45	Wholesale and retail trade and repair of motor vehicles and
F	Construction
C10-C12	Manufacture of prepared pet foods
K66	Activities auxiliary to financial services and insurance activities
C20	Manufacture of chemicals and chemical products
C23	Manufacture of other non-metallic mineral products
C16	Manufacture of wood products, and straw and plaiting
N77	Rental and leasing activities
K65	Insurance and pension funding
C24	Manufacture of basic metals
C26	Manufacture of computers
H50	Water transport
C22	Manufacture of rubber and plastic products
C17	Manufacture of paper and paper products
C25	Manufacture of fabricated metal products
M71	Architectural and engineering activities
C28	Manufacture of machinery and equipment
B	Mining
G46	Wholesale trade
C27	Manufacture of electrical equipment
J59-J60	Sound recording and music publishing activities
M73	Advertising and market research
M72	Research and experimental development
M74-M75	Other professional activities
S95	Repair of household goods
A03	Fishing and aquaculture
C21	Manufacture of basic pharmaceutical products and
N80-N82	Investigation activities
E	Water supply and waste management
E37-E39	Sewerage
J58-J60	Other software publishing
M69-M71	Auditing activities and tax consultancy
H53	Postal and courier activities
S94	Activities of membership organisations

	Industries moderately affected by Covid-19
Code	Description
L68	Real estate activities

Rating process

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

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

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

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

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

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

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

Internal rating: the HYPO master scale

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

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

Determining the initial rating

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

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

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

- if the first available rating for all customer groups is more than one year after recognition of the transaction,

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

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

Forbearance

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

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

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

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

These monitoring measures ensure that transactions subject to forbearance measures are classified as non-performing as soon as:

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

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

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

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

- An analysis of the debtor's financial position leads to the conclusion that the debtor can meet its financial liabilities
- The loan/bond is classified as performing
- The probation period of at least two years after classification as performing has been completed
- The debtor has materially fulfilled their payment obligations regularly over at least half of the probation period
- None of the debtor's exposures during and at the end of the probation period are overdue by more than 30 days

During 2020, the main forbearance measures took the form of payment deferrals – due in some cases to the consequences of the coronavirus pandemic – as well as rescheduling and refinancing measures.

EUR '000	31 Dec. 2020	31 Dec. 2019
Forborne exposures as at 1 Jan.	**55,285**	**70,138**
Additions (+)	98,090	6,138
Exits (-)	-36,593	-20,990
Forborne exposures as at 31 Dec.	**116,782**	**55,285**
Related interest income from existing receivables recognised in profit or loss	1,973	2,050
Related risk provisions	-16,123	-7,073

The presentation includes both forborne instalments and arrears. There were no significant cases of derecognition as a result of forbearance measures in 2020. Most of the reduction was due to repayments. Unlike the NPL portfolio, the tables below include all assets in respect of which forbearance measures were taken, even where these did not lead to Stage 3 classification at the level of individual exposures.

Geographical analysis

EUR '000	31 Dec. 2020	31 Dec. 2019
Domestic customers	86,520	16,532
Foreign customers		
CEE	12,297	38,753
Rest of the world	17,966	-
Total	116,782	55,285

Rating class analysis

31 Dec. 2020, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Rating class 2	388	-	-	388	387
Rating class 3	42,919	68	-	42,987	25,436
Rating class 4	25,598	33	-	25,631	21,986
Rating class 5	21,380	13,206	13,192	47,777	24,306
Total	90,284	13,306	13,192	116,782	72,115

31 Dec. 2019, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Rating class 2	44	-	-	44	44
Rating class 3	32,523	-	-	32,523	620
Rating class 4	7,800	-	-	7,800	5,887
Rating class 5	14,546	61	311	14,918	5,682
Total	54,913	61	311	55,285	12,234

Maturity analysis

31 Dec. 2020, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Financial assets - AC (Stage 1)	1,184	-	-	1,184	-
Financial assets - AC (Stage 2)	66,777	101	-	66,878	47,178
Financial assets - AC (Stage 3)	20,767	13,206	12,669	46,641	23,405
Financial assets - mandatorily FVTPL	1,556	-	523	2,079	1,531
Total	90,284	13,306	13,192	116,782	72,115

31 Dec. 2019, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total	Collateral received
Financial assets - AC (Stage 1)	1,261	-	-	1,261	-
Financial assets - AC (Stage 2)	37,709	-	-	37,709	5,488
Financial assets - AC (Stage 3)	14,189	61	295	14,545	5,484
Financial assets - mandatorily FVTPL	1,754	-	16	1,769	1,262
Total	54,913	61	311	55,285	12,234

Payment deferrals and bridging loans

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

Measures related to Covid-19

The Bank received enquiries regarding payment deferrals and bridging loans in the course of the Covid-19 pandemic. Independently of the statutory requirements, the HYPO NOE Group performs plausibility checks of the information and accompanying documents provided by the customer, above all with regard to financial difficulties, indications of unlikeliness to pay, and compliance with the criteria in the Austrian *Unternehmensreorganisationsgesetz* (Business Reorganisation Act). The review focuses on the following points:

- Plausibility of the problem described: the Covid-19 pandemic must be the reason for the liquidity requirements (due to e.g. lost revenue, a decline in orders, supply chain disruption, branch closures, collapsing reservations or cancellations), taking into account the business model in question
- Plausibility of the financing requirement with regard to the amount of credit applied for relative to existing borrowing, and plausibility of the deferral requirement relative to costs and expenses
- Plausibility of ability to repay based on (pre-crisis) cash flows

As a minimum, the customer must provide the following documentation for the Bank's internal review:

- Results for 2019 (preliminary if final data are not available) and interim results for 2020
- Forecast liquidity requirements for the coming two to three months (e.g. staff costs, rental and other fixed costs, trade payables and other expenses)
- List of current borrowings (ideally with details of the exposure, maturity date and any collateral)
- Description of the actual financial impacts of Covid-19: the customer must provide plausible evidence and explanations or estimates of the negative consequences of the Covid-19 crisis (drop in revenue and orders, etc.). Financing should not be provided for the purpose of liquidity hoarding

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

Payment deferrals as a result of the pandemic can be divided into moratoriums and voluntary deferrals. A distinction can be drawn made between statutory and non-statutory moratoriums. All other forms of forbearance are granted voluntarily by the Bank regardless of any moratoriums. An overview of the HYPO NOE Group's forbearance portfolio attributable to the Covid-19 pandemic is provided in the section on "Detailed information on risk provisions", below.

Statutory moratorium

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

Assuming that the customer meets all of the other eligibility requirements, and in particular that the customer has suffered a temporary liquidity shortage solely as a result of the Covid-19 crisis and has been running an overdraft for less than 30 days, the following conditions apply:

- Not classified as forbearance if the deferral was agreed by 30 September 2020 and expires on 31 January 2021 at the latest
- Not classified as default and not risk weighted as a delinquent receivable
- The statutory moratorium does not directly trigger a staging process, but staging is possible for other quantitative or qualitative reasons
- Rating is not automatically downgraded due to the deferral
- Referral is recognised in the accounts as a generally immaterial modification in measurement gains or losses (further information on the accounting treatment of deferrals is provided in Note 4.2.2 "Net gains or losses on financial assets and liabilities")

Non-statutory moratorium

Assuming that the customer has suffered a temporary liquidity shortfall solely as a result of the Covid-19 crisis, has primarily been running an overdraft for less than 30 days and meets the criteria for a non-statutory moratorium, the following apply:

- Not classified as forbearance
- Not classified as default and not risk weighted as a delinquent receivable
- The non-statutory moratorium does not directly trigger staging, but staging is possible for other quantitative or qualitative reasons
- Rating is not automatically downgraded due to the deferral
- Referral is recognised in the accounts as a generally non-material modification in measurement gains or losses (further information on the accounting treatment of deferrals is provided in Note 4.2.2 "Net gains or losses on financial assets and liabilities")

The conditions for applying a non-statutory moratorium in accordance with the EBA guidelines are as follows:

- Borrowers ('obligors') are to be allocated to the retail exposures, corporates, or exposures secured by mortgages on immovable property class (in the meaning of the CRR)
- The underlying loan agreement was concluded before 15 March 2020
- The moratorium was agreed on or before 31 August 2020
- The moratorium must relate to payment obligations arising from the loan agreement that were due after 15 March 2020
- The length of the moratorium is a maximum of nine months and extends until 31 March 2021 at the latest
- The moratorium takes the form of a suspension of payments of principal amounts and/or interest
- The obligor has been adversely affected by the Covid-19 pandemic
- The moratorium was offered to obligors as a general preventive measure, and not to specific customers
- The legislative moratorium in Austria was not applied to obligors
- The moratorium does not cover previously defaulted exposures
- The non-statutory moratorium applies by analogy to lease agreements

Voluntary moratoriums

Moratoriums not classified as statutory or non-statutory are assessed on the basis of the regulatory requirements for forbearance as is usual for moratoriums. Information on forbearance reviews can be found in the section 'Forbearance', above.

Bridging loans

During the coronavirus pandemic, bridging loans were mainly extended to existing customers, primarily in Lower Austria and Vienna, for which the HYPO NOE Group is the principal bank. However, there was little call for bridging loans.

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

Regardless of the rating, new business is usually allocated to Stage 1. As soon as the credit risk increases significantly compared with the point at which the transaction was concluded, the instrument is transferred to Stage 2. The qualitative and quantitative triggers that result in a transfer to Stage 2 are described below. Nevertheless, exposures allocated to rating class 1 are given a low credit risk exemption due to the low risk of default, and are therefore all included in Stage 1.

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

The HYPO NOE Group uses quantitative and qualitative indicators to determine whether there has been a significant increase in credit risk.

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

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

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

Qualitative indicators used to determine whether there has been a significant increase in credit risk comprise: forbearance measures; whether payment is 30 days past due; intensive care; customers unrated at the reporting date; and early warning indicators (to the extent that these are not already adequately reflected in the rating). The overall evolution of macroeconomic conditions in the sector concerned is also considered when assessing whether a stage transfer is required. An example is the current Covid-19 crisis which has been subjected to a qualitative staging process based on comprehensive analysis of the portfolios endangered by it.

When a trigger event induces a stage transfer, retransfer only takes place if the event in question no longer applies. In Stage 2, good conduct periods are usually not observed, with the exception of forbearance measures. In the case of the latter, there is a two-year probation period before the event is deemed to be voided.

Measures related to Covid-19

Autumn 2020 brought a sharp increase in the number of new Covid-19 cases. This prompted repeated, significant restrictions on business and social life worldwide, which remained in place until the end of 2020 and beyond. Governments and central banks attempted to limit the negative impacts of the growing crisis with a wide range of support measures. At present, it is difficult to predict the actual consequences of the pandemic with any degree of certainty. Generally speaking, though, the effects of the support packages are unlikely to outweigh the negative impact of the crisis. On the whole, there are indications that further negative effects on customers' credit quality are more likely than positive ones. This prediction has been borne out by economic performance, which dipped again towards the end of the reporting period. The anticipated withdrawal of support measures once the pandemic has been reined in and the subsequent return to normality has resulted in a sharp increase in credit risk. Therefore, the HYPO NOE Group believes that the protracted crisis is clear evidence that credit risk among customers in the industries seriously affected by the pandemic has risen significantly compared to the time at which the loans were extended, regardless of the customers' current ratings and the regular adjustments to the point-in-time PD curves. In order to take these negative expectations into account, all of the accounts of customers in industries classified as at risk in the internal analysis of the impact of the pandemic, and which were not already subject to a stage transfer after meeting other criteria, were transferred to Stage 2. New business concluded after 1 November 2020 was not transferred, as credit risk on these exposures has not increased significantly since the loans were extended.

Retail customers who have lost their jobs or been furloughed have also been seriously affected by the current crisis. This is underlined by the big increase in unemployment. It is still hard to predict the medium-term effects of the crisis due to the relief measures introduced. That said, the HYPO NOE Group expects the creditworthiness of further customers to deteriorate once the support programmes end. In order to incorporate these factors in the Bank's forecasts, in spite of the high degree of uncertainty associated with them, a further 50% of the Stage 1 accounts were transferred to Stage 2. As the Bank does not have any reliable information with which to carry out stage transfers on an individual basis, every second receivable in the Retail Customers segment (under the Basel classification) was transferred to Stage 2.

The quantitative effects of this step are presented in the sensitivity analysis in the "Scenarios and sensitivities" section, below.

Financial assets with impaired credit quality (Stage 3)

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

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

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

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

The following indicators are also applied to corporate loan agreements:

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

- Irregular schedule of repayments, with significantly smaller payments planned at the start of the repayment schedule
- Extended grace period before the start of the repayment schedule

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

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

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

- Contractual cash flow scenario: in this scenario, only cash flows of principal and interest arising from contractual agreements over the entire residual term of the loan are recognised. Income from the potential realisation of collateral is not considered. When estimating the level of cash flows, it is assumed that these will be received in full over the entire residual maturity of the transaction.
- Going concern scenario: here, it is assumed that the customer will pay the principal and/or interest for at least three more years and that the realisation of available collateral will only begin after three years. Until that time, no steps will be taken to collect the outstanding amount. Realisation begins after three years. Consequently, cash flows from payments of principal and interest, as well as from the realisation of collateral are taken into account in this scenario.
- Gone concern scenario: in the gone concern scenario it is assumed that the customer has ceased to make payments and the outstanding loans and receivables can be covered from the realisation of the collateral furnished. The realisation period is determined by the collateral class. Usually, only cash flows from collateral realisation are recognised in this scenario.

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

Depreciation, amortisation and impairment

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

Cure

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

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

  - Two successive sets of annual financial statements (statement of financial position, or receipts and payments statement) showing an operating profit
  - Long-term debt service from cash flow is realistic
- Improvement in the customer's financial situation
- No other indications of impaired creditworthiness

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

Measurement parameters

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

Probability of default (PD)

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

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

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

TTC PD curves

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

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

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

Based on the empirical cumulative default rate data, fitting is carried out for corporates and financial institutions by means of adjusted Weibull distributions.

Point in time (PiT) PD curves

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

In line with the regional focus of the HYPO NOE Group's lending business, the model uses publicly available, regularly updated forecasts and historical time series from the OeNB as macroeconomic indicators.

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

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

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

The model produces a forecast for a period of up to three years based on the indicators published regularly by the OeNB. The Group uses the most recent information, which the OeNB usually publishes in December. This means that the latest expectations and findings on the overall macroeconomic situation feed into the model. At present, this is instrumental in improving the quality of the forecasts, especially in view of the continuing Covid-19 crisis and the high level of uncertainty associated with it. The parameters applied at 31 December 2020 reflect current expectations, taking into account the negative effects of the pandemic and the support packages implemented in response to it.

The current model considers macroindicators, as well as a time lag between the movement of the indicators and the expected time of default. Moratoriums and state support measures have further extended the lag between shifts in the indicators and the defaults. This degree of lagging was not included in previous empirical studies. The lengths of these delays are known, and attention was paid to them in the PD forecasts. As a result, the negative macro-parameters for 2020 serve as a forecast of defaults in 2021 as a whole. For 2022 and 2023, the change in the macro-parameters as compared with 31 December 2019 (pre-crisis level) was used in the calculation, rather than the year-on-year change. This removed the positive distortions in the relative evolution of the macroindicators resulting from a comparison with the indicators' low levels during the crisis (i.e. as at 31 December 2020), so that the relatively high growth rates in the subsequent years of the crisis are not given too much weight in the macroeconomic model. The tables below provide a comparison of the macroeconomic indicators published by the OeNB and those applied in generating the HYPO NOE Group's forecasts as at 31 December 2020 and 31 December 2019.

31 Dec. 2020	OeNB forecasts		
Years	Gross domestic product	Private consumption	Total exports
2020	-7.1	-8.8	-11.8
2021	3.6	3.9	5.4
2022	4.0	4.7	5.5
2023	2.2	2.0	3.7

31 Dec. 2020	HYPO NOE inputs		
Years	Gross domestic product	Private consumption	Total exports
2021	-7.1	-8.8	-11.8
2022	-3.8	-5.2	-7.0
2023	0.1	-0.8	-1.9

31 Dec. 2019	OeNB forecasts		
Years	Gross domestic product	Private consumption	Total exports
2019	1.6	1.2	3.1
2020	1.1	1.3	1.7
2021	1.5	1.3	2.8
2022	1.6	1.4	2.9

31 Dec. 2019	HYPO NOE inputs		
Years	Gross domestic product	Private consumption	Total exports
2020	1.1	1.3	1.7
2021	1.5	1.3	2.8
2022	1.6	1.4	2.9

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

Rating	1Y PD – master scale	1Y PiT PD – corporate	1Y PiT PD – retail
1A	0.01%	0.04%	The assessment of retail customers' creditworthiness begins at a rating of 2C, so these categories do not apply
1B	0.02%	0.04%	
1C	0.03%	0.05%	
1D	0.04%	0.06%	
1E	0.05%	0.07%	
2A	0.07%	0.09%	
2B	0.11%	0.14%	
2C	0.16%	0.20%	0.29%
2D	0.24%	0.31%	0.41%
2E	0.35%	0.48%	0.62%
3A	0.53%	0.80%	0.91%
3B	0.80%	1.32%	1.34%
3C	1.20%	1.98%	1.95%
3D	1.79%	2.94%	2.84%
3E	2.69%	4.39%	4.14%
4A	4.04%	6.55%	6.01%
4B	6.05%	10.15%	8.74%
4C	9.08%	15.69%	12.67%
4D	13.62%	24.14%	18.30%
4E	20.44%	36.90%	26.35%

LGD for uncollateralised loan portions

LGDs for uncollateralised loan portions are specifically applied to all key customer groups. The LGDs for the retail customer group are derived from internal empirical default data. In the low-default-risk portfolio (i.e. sovereigns, covered bonds and financial institutions) the Group currently uses estimates of LGD based on global default data from the Moody's rating agency. The same applies to corporates, as there is too little reliable internal default data available to make a valid internal estimate of LGD. In the case of specialised lending exposures, LGD for uncollateralised loan portions is based on slot 5 in Table 2 in Art. 158(6) CRR. This is used as the basis for generating "slot-implicit" ratings.

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

LGD for collateralised loan portions

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

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

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

As of 31 December 2020, the Group had not identified any lasting effects on its real estate portfolio resulting from the Covid-19 crisis. In order to counteract the uncertainty arising from the Covid-19 pandemic with regard to calculating lifetime expected credit losses, additional sensitivity analyses were carried out which take into account a downturn in the value of real estate used as collateral. Details of this analysis are provided in the section "Scenarios and sensitivities", below.

Credit conversion factor (CCF)

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

Early repayments

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

Instruments with no fixed maturity date

The maturity of perpetual instruments is calculated for financial institutions on a case-by-case basis, in accordance with paragraphs 5.5.20 in conjunction with B5.5.40 IFRS 9. The purchase date is assumed to be the opening date, and the initial rating is therefore recorded at the purchase date. An empirical analysis of historic repayment behaviour on the part of these accounts is used to determine the maturity.

Scenarios and sensitivities

Generally speaking, the HYPO NOE Group uses the most probable scenario to measure lifetime expected credit losses (baseline scenario). The estimates applied under the individual measurement parameters therefore correspond to the most probable expected value. This baseline scenario considers both the anticipated negative consequences of the coronavirus pandemic and the counterbalancing effects of the various support packages. Internal analyses show that the Group's portfolio contains no significant asymmetries that would lead to a materially different estimate of impairment losses/gains if a number of scenarios were considered. Evidence of this is provided by calculating and weighting two alternative scenarios (optimistic and pessimistic). The weighting of the alternative scenarios is determined on the basis of the simulation method employed to establish the two alternative scenarios. When calculating the PiT PDs, the 10% quantile of the distribution was applied in the optimistic scenario and the 90% quantile in the pessimistic scenario. In the interests of consistency in the methodology and avoidance of arbitrariness, both scenarios were given a weighting of 10%. The results of the analysis do not show any material deviations between the probability-weighted average ECL calculated in the three scenarios and the ECL according to the baseline scenario. In addition, the alternative scenarios provide a transparent indication of the uncertainty arising from the use of forecasts and statistical models when estimating PD. The results from the different scenarios as at 31 December 2020 and 31 December 2019 are shown below:

31 Dec. 2020, EUR '000	Optimistic	Baseline	Pessimistic
Risk provisions generated by the fully automated process (Stage 1 and Stage 2)	49,323	52,779	56,093

31 Dec. 2019, EUR '000	Optimistic	Baseline	Pessimistic
Risk provisions generated by the fully automated process (Stage 1 and Stage 2)	32,305	33,679	34,905

The Covid-19 pandemic has increased the level of uncertainty associated with measuring expected credit losses. To counter this, the HYPO NOE Group has carried out additional sensitivity analyses. These show the effects and sensitivities of qualitative staging for industries significantly affected by the Covid-19 pandemic. Additionally, one scenario is presented that depicts the effects of a relative increase of 25% in all losses given default for the uncollateralised portion of loans, coupled with a 15% fall in the value of real estate collaterals. The results of this analysis can be found in the table below.

EUR '000	Risk provisions – Stage 1 and 2	Delta to baseline	Description of change in parameters
Sensitivity 1	50,016	-2,763	Baseline scenario without Covid-19 staging for 50% of retail customers
Sensitivity 2	46,018	-6,761	Baseline scenario without qualitative staging for the affected industries, drawn from the Covid-19 downgrade model
Sensitivity 3	55,434	2,655	Baseline scenario with Covid-19 staging increased to 100% of retail customers
Sensitivity 4	75,076	22,297	Baseline scenario with relative increase of 25% in LGD for the uncollateralised portion of loans and reduction of 15% in value of real estate collaterals

4.5.3 Detailed information on risk provisions

Risk provisions by rating class

	Risk provisions					Gross carrying amount/nominal amount				
	31 Dec. 2020				31 Dec. 2019	31 Dec. 2020				31 Dec. 2019
EUR '000	Stage 1	Stage 2	Stage 3	Total	Total	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances at central banks	-4	-9	-	-13	-10	1,463,819	137	-	1,463,955	235,491
Financial assets - AC	-10,889	-39,077	-29,102	-79,068	-74,778	9,377,023	3,837,583	95,418	13,310,025	12,491,871
Loans	-10,765	-28,874	-29,102	-68,741	-64,963	8,301,516	3,701,959	95,418	12,098,894	11,526,772
Rating class 1	-59	-241	-	-300	-179	3,635,427	1,000,507	-	4,635,934	4,896,046
Rating class 2	-3,874	-4,071	-	-7,945	-3,575	3,626,292	1,355,433	-	4,981,726	3,475,544
Rating class 3	-6,172	-19,949	-	-26,120	-15,382	983,618	1,128,452	-	2,112,071	2,871,099
Rating class 4	-661	-4,613	-	-5,274	-3,349	56,177	217,567	-	273,744	173,906
Rating class 5	-	-	-29,102	-29,102	-42,477	-	-	95,418	95,418	110,177
Bonds	-124	-10,203	-	-10,327	-9,815	1,075,508	135,624	-	1,211,131	965,099
Rating class 1	-39	-53	-	-92	-23	707,065	46,678	-	753,743	567,423
Rating class 2	-82	-118	-	-200	-92	363,244	30,465	-	393,710	335,599
Rating class 3	-3	-499	-	-502	-85	5,198	19,012	-	24,210	21,234
Rating class 4	-	-9,533	-	-9,533	-9,616	-	39,469	-	39,469	40,842
Financial assets - FVOCI	-18	-7	-	-25	-34	501,516	11,343	-	512,859	617,482
Bonds	-18	-7	-	-25	-34	501,516	11,343	-	512,859	617,482
Rating class 1	-7	-	-	-7	-12	370,849	-	-	370,849	439,090
Rating class 2	-11	-7	-	-18	-21	130,666	11,343	-	142,010	178,392
Trade receivables	-	-17	-30	-47	-13	1,573	433	30	2,036	4,187
Provisions for off-balance-sheet risks	-885	-1,873	-36	-2,794	-2,734	1,418,563	461,099	279	1,879,940	1,890,279
Rating class 1	-	-33	-	-33	-2	638,314	98,705	-	737,019	1,120,407
Rating class 2	-96	-74	-	-170	-154	210,472	102,957	-	313,430	330,451
Rating class 3	-736	-1,403	-	-2,139	-996	565,030	224,842	-	789,871	414,967
Rating class 4	-54	-363	-	-416	-192	4,747	34,594	-	39,341	20,104
Rating class 5	-	-	-36	-36	-1,390	-	-	279	279	4,351
Total	-11,797	-40,982	-29,168	-81,947	-77,568	12,762,494	4,310,595	95,727	17,168,816	15,239,310

Risk provisions for the forbearance portfolio attributable to the Covid-19 pandemic by rating class

The breakdown of the carrying amounts and risk provisions for the Covid-19 portfolio by rating class as at 31 December 2020 is presented in the table below.

	Risk provisions					Gross carrying amount/nominal value				
	31 Dec. 2020				31 Dec. 2019	31 Dec. 2020				31 Dec. 2019
EUR '000	Stage 1	Stage 2	Stage 3	Total	Total	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets – AC	**196**	**2,220**	**1,667**	**4,083**	-	**54,049**	**48,954**	**8,675**	**111,677**	-
Loans	196	2,220	1,667	4,083	-	54,049	48,954	8,675	111,677	-
Rating class 1	-	-	-	-	-	18,263	225	-	18,488	-
Rating class 2	195	5	-	199	-	35,386	2,921	-	38,307	-
Rating class 3	-	1,700	-	1,700	-	130	25,766	-	25,896	-
Rating class 4	-	516	-	516	-	269	20,042	-	20,311	-
Rating class 5	-	-	1,667	1,667	-	-	-	8,675	8,675	-
Provisions for off-balance-sheet risks	-	**6**	-	**6**	-	**1**	**434**	-	**434**	-
Rating class 3	-	-	-	-	-	-	232	-	232	-
Rating class 4	-	5	-	5	-	1	202	-	202	-
Total	196	2,226	1,667	4,089	-	54,049	49,388	8,675	112,112	-

Impact of Covid-19 – industry analysis

The tables below show the results of the industry-based analysis of the impact of Covid-19, in particular the systemic rating downgrades applied to the different rating classes, as well as the carrying amounts, the risk provisions and the proportion of customers assigned to Stage 2 as at 31 December 2020.

EUR '000	Industries very seriously affected by Covid-19			
Rating class	Downgrade, notches	Carrying amount	Risk provisions	Proportion in Stage 2
Rating class 1	-	41,734	53	100%
Rating class 2	1	8,991	34	100%
Rating class 3	1 - 2	27,711	1,474	100%
Rating class 4	3 (to max. 4E)	20,147	995	100%
TOTAL		98,583	2,556	

EUR '000	Industries seriously affected by Covid-19			
Rating class	Downgrade, notches	Carrying amount	Risk provisions	Proportion in Stage 2
Rating class 1	-	231,485	91	100%
Rating class 2	-	492,714	1,401	100%
Rating class 3	1	300,224	6,993	100%
Rating class 4	2 (to max. 4E)	26,375	595	100%
TOTAL		1,050,798	9,081	

EUR '000	Industries moderately affected by Covid-19			
Rating class	Downgrade, notches	Carrying amount	Risk provisions	Proportion in Stage 2
Rating class 1	-	746,350	182	100%
Rating class 2	-	160,530	344	100%
Rating class 3	1	107,079	965	100%
Rating class 4	1 (to max. 4E)	68,065	781	100%
TOTAL		1,082,024	2,272	

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

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

EUR '000	Changes in risk provisions, 2020	Impairment losses/gains on financial assets – IFRS 9 ECL	Interest expense	Not recognised through profit or loss	Changes in risk provisions, 2019
Risk provisions at start of reporting period	-77,568				-79,130
Increase due to origination and purchase	-9,400	-9,400	-	-	-7,166
Reduction due to derecognition and substantial modification	2,640	2,640	-	-	2,761
Utilisation of risk provisions	16,876	-	-	16,876	16,446
Allocations and reversals due to changes in credit risk	-14,457	-13,635	-822	-	-10,490
Other adjustments (incl. exchange differences)	-	-	-	-	34
Cash and balances at central banks, and trade receivables	-37	-42	-	5	-23
Other income and expenses	-	-	-	-	-
Risk provisions at end of reporting period	-81,947	-20,438	-822	16,881	-77,568

Stage 1 impairment losses/gains

The table below shows the evolution of the loss allowances for "Financial assets – AC", "Financial assets – FVOCI (debt instruments)", off-balance-sheet transactions and – from 2020 onwards – "Cash and balances at central banks" recognised under these items. These loss allowances are measured at amounts equal to the 12-month expected credit losses.

31 Dec. 2020 EUR '000	1 Jan. 2020	Origination and purchase	Derecognition /utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2020
Cash and balances at central banks	**-6**	**-**	**4**	**-2**	-	**-4**
Financial assets – AC	**-9,999**	**-5,556**	**1,242**	**3,424**	-	**-10,889**
Loans	-9,836	-5,515	1,239	3,347	-	-10,765
Banks	-	-	-	-	-	-
General governments	-70	-123	8	174	-	-11
Other financial corporations	-1,177	-344	18	563	-	-940
Non-financial corporations	-7,252	-3,655	1,129	1,198	-	-8,580
Households	-1,338	-1,393	84	1,412	-	-1,235
Bonds	-163	-41	3	78	-	-124
Banks	-90	-23	1	25	-4	-91
General governments	-4	-2	-	-1	-	-6
Other financial corporations	-2	-5	1	-23	4	-25
Non-financial corporations	-67	-11	-	77	-	-2
Financial assets – FVOCI	**-30**	**-7**	**10**	**9**	-	**-18**
Bonds	-30	-7	10	9	-	-18
Banks	-22	-1	8	4	-1	-13
General governments	-3	-	1	-2	-	-4
Other financial corporations	-1	-1	1	-	1	-1
Non-financial corporations	-3	-4	-	7	-	-
Provisions for off-balance-sheet risks	**-1,076**	**-923**	**430**	**683**	-	**-885**
Loan commitments and financial guarantee contracts	-1,076	-923	430	683	-	-885
Total	-11,112	-6,486	1,686	4,115	-	-11,797

31 Dec. 2019 EUR '000	1 Jan. 2019	Origination and purchase	Derecognition /utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2019
Financial assets – AC	**-7,355**	**-4,446**	**613**	**1,181**	**8**	**-9,999**
Loans	-7,258	-4,446	613	1,247	8	-9,836
Banks	-8	-	-	-	8	-
General governments	-214	-9	21	133	-	-70
Other financial corporations	-257	-944	1	-75	99	-1,177
Non-financial corporations	-5,503	-2,741	481	610	-99	-7,252
Households	-1,275	-752	111	579	-	-1,338
Bonds	-98	-	-	-66	-	-163
Banks	-48	-	-	-42	-	-90
General governments	-3	-	-	-	-	-4
Other financial corporations	-	-	-	-2	-	-2
Non-financial corporations	-47	-	-	-20	-	-67
Financial assets – FVOCI	**-46**	**-2**	**1**	**18**	**-**	**-30**
Bonds	-46	-2	1	18	-	-30
Banks	-38	-2	1	18	-	-22
General governments	-5	-	-	2	-	-3
Other financial corporations	-1	-	-	-	-	-1
Non-financial corporations	-1	-	-	-1	-	-3
Provisions for off-balance-sheet risks	**-879**	**-1,538**	**557**	**784**	**-**	**-1,076**
Loan commitments and financial guarantee contracts	-879	-1,538	557	784	-	-1,076
Total	-8,281	-5,987	1,171	1,983	8	-11,105

Stage 2 impairment losses/gains

The following table shows the changes in the loss allowances for "Financial assets – AC", "Financial assets – FVOCI (debt instruments)" and off-balance-sheet transactions, as well as – from 2020 onwards – "Cash and balances at central banks" and "Trade receivables" recognised under these items, where the default risk has risen significantly since initial recognition but the credit quality of the assets concerned is unimpaired. These loss allowances were measured at amounts equal to the lifetime expected credit losses.

31 Dec. 2020 EUR '000	1 Jan. 2020	Origination and purchase	Derecognition /utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2020
Cash and balances at central banks	-4	-	-	-5	-	-9
Financial assets – AC	-22,302	-2,554	528	-14,749	-	-39,077
Loans	-12,650	-103	528	-16,649	-	-28,874
Banks	-	-	-	-	-	-
General governments	-1,014	-61	-	136	-	-938
Other financial corporations	-30	-	8	-160	-	-182
Non-financial corporations	-6,132	-16	149	-11,989	-	-17,989
Households	-5,474	-26	371	-4,636	-	-9,764
Bonds	-9,652	-2,451	-	1,900	-	-10,203
Banks	-	-	-	-	-	-
General governments	-	-1,401	-	1,399	-	-3
Other financial corporations	-9,616	-912	-	934	41	-9,554
Non-financial corporations	-36	-138	-	-432	-41	-647
Financial assets – FVOCI	-4	-	-	-3	-	-7
Bonds	-4	-	-	-3	-	-7
Banks	-4	-	-	4	-	-
Non-financial corporations	-	-	-	-7	-	-7
Trade receivables	-13	-	-	-9	5	-17
Provisions for off-balance-sheet risks	-268	-6	37	-1,635	-	-1,873
Loan commitments and financial guarantee contracts	-268	-6	37	-1,635	-	-1,873
Total	-22,590	-2,560	565	-16,402	5	-40,982

31 Dec. 2019 EUR '000	1 Jan. 2019					31 Dec. 2019
Financial assets – AC	-16,546	-913	1,024	-5,869	2	-22,302
Loans	-16,516	-913	1,024	3,753	2	-12,650
Banks	-2	-	-	-	2	-
General governments	-901	-1	1	-113	-	-1,014
Other financial corporations	-20	-702	4	688	-	-30
Non-financial corporations	-5,485	-175	414	-886	-	-6,132
Households	-10,108	-35	605	4,064	-	-5,474
Bonds	-30	-	-	-9,622	-	-9,652
Banks	-	-	-	-	-	-
General governments	-30	-	-	30	-	-
Other financial corporations	-	-	-	-9,616	-	-9,616
Non-financial corporations	-	-	-	-36	-	-36
Financial assets – FVOCI	-9	-	2	3	-	-4
Bonds	-9	-	2	3	-	-4
Banks	-9	-	2	3	-	-4
Non-financial corporations	-	-	-	-	-	-
Provisions for off-balance-sheet risks	-203	-10	72	-128	-	-268
Loan commitments and financial guarantee contracts	-203	-10	72	-128	-	-268
Total	-16,758	-923	1,098	-5,993	2	-22,574

Stage 3 impairment losses/gains

The table below shows the evolution of the loss allowances for "Financial assets – AC", "Financial assets – FVOCI (debt instruments)", off-balance-sheet transactions and – from 2020 onwards – "Trade receivables" recognised under these items, where credit quality is impaired at the reporting date (but this was not the case at the time of purchase or origination). These loss allowances were measured at amounts equal to the lifetime expected credit losses.

31 Dec. 2020 EUR '000	1 Jan. 2020	Origination and purchase	Derecognition /utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2020
Financial assets – AC	**-42,476**	**-352**	**17,238**	**-3,511**	**-**	**-29,102**
Loans	-42,476	-352	17,238	-3,511	-	-29,102
General governments	-4,322	-	-	377	-	-3,945
Other financial corporations	-	-	-	-2,995	-	-2,995
Non-financial corporations	-26,141	-	12,200	-39	-	-13,980
Households	-12,013	-352	5,038	-854	-	-8,183
Trade receivables	**-**	**-30**	**-**	**-**	**-**	**-30**
Provisions for off-balance-sheet risks	**-1,390**	**-1**	**31**	**1,324**	**-**	**-36**
Loan commitments and financial guarantee contracts	-1,390	-1	31	1,324	-	-36
Total	**-43,866**	**-384**	**17,268**	**-2,187**	**-**	**-29,168**

31 Dec. 2019 EUR '000	1 Jan. 2019					31 Dec. 2019
Financial assets – AC	**-53,342**	**-256**	**16,914**	**-5,817**	**24**	**-42,476**
Loans	-53,342	-256	16,914	-5,817	24	-42,476
General governments	-4,695	-	-	373	-	-4,322
Other financial corporations	-	-	-	-	-	-
Non-financial corporations	-31,682	-	11,675	-6,158	24	-26,141
Households	-16,965	-256	5,239	-32	-	-12,013
Provisions for off-balance-sheet risks	**-750**	**-1**	**25**	**-663**	**-**	**-1,390**
Loan commitments and financial guarantee contracts	-750	-1	25	-663	-	-1,390
Total	**-54,092**	**-257**	**16,939**	**-6,480**	**24**	**-43,866**

4.6 Derivatives and hedge accounting

Significant accounting policies

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

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

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

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

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

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

The euro overnight index average (EONIA) benchmark rate, among others, does not meet the requirements of the EU Benchmarks Regulation, which came into effect on 1 January 2018, and it will therefore gradually be replaced by the new euro short-term rate (€STR). In July 2020, the discount curves for cleared derivatives, which are traded on the European Exchange (Eurex) and LCH, were switched from EONIA to €STR. The resulting measurement differences were offset by means of compensation payments. An identical changeover will be made step by step for the discount curves for derivatives with bilateral contracts and CSAs. Again, compensation payments will be made in respect of the resulting measurement differences. The Group will recognise these payments immediately in profit or loss.

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

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

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

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

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

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

As at 31 December 2020, only micro fair value hedges were reported on the consolidated statement of financial position. A micro-hedge arises if a hedged underlying (or group of underlyings) can be clearly assigned to one or more hedges. Bottom layer hedges are used as a special form of micro fair value hedge for a variety of fixed-interest loans. Here, a bottom layer for a group of like underlyings is designated for hedge accounting, and it is assumed that following the expected prepayments this layer will in all likelihood remain in place until the hedge transactions mature. In this case, precise allocation of the individual underlyings to the remaining bottom layer is not required.

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

Designated derivatives in hedging relationships are measured at fair value, and gains or losses on them are reported under "Net gains or losses on financial assets and liabilities" (for detailed information see Note 4.2.3 Net gains or losses on financial assets and liabilities). The corresponding interest accruals are shown under "Net interest income" (for details see Notes 4.2.1 Interest and similar income and 4.2.2 Interest and similar expense).

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

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

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

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

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

4.6.2 Carrying amounts and nominal values of derivatives

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

The following table provides an overview of the nominal values and carrying amounts of derivatives carried as at 31 December 2020.

	31 Dec. 2020			31 Dec. 2019		
	Carrying amount		Nominal value	Carrying amount		Nominal value
EUR '000	Assets	Liabilities		Assets	Liabilities	
Financial assets and liabilities - HFT	**417,189**	**388,764**	**4,413,627**	**438,035**	**406,606**	**5,172,476**
Interest rate derivatives	392,269	364,457	3,686,255	415,952	384,718	4,446,958
Foreign exchange derivatives	24,919	24,307	727,372	22,083	21,889	725,519
Positive and negative fair value of hedges (hedge accounting)	**445,780**	**829,132**	**10,152,852**	**436,278**	**767,441**	**10,211,964**
Interest rate derivatives	439,632	809,316	9,945,667	429,577	749,604	9,968,657
Foreign exchange derivatives	6,148	19,815	207,185	6,701	17,837	243,307

	31 Dec. 2020					
	Financial assets/liabilities (gross)	Reported amounts offset (gross)(-)	Reported financial assets (net)	Effect of master netting agreements (-)	Collateral in the form of financial instruments (-)	Net amount
				Not offset		
EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i)	(d)(ii)	(e)=(c)+(d)
Assets						
Financial assets - HFT	417,189	-	417,189	-21,893	-14,870	380,427
Positive fair value of hedges (hedge accounting)	445,780	-	445,780	-310,864	-46,296	88,620
Total assets	**862,969**	**-**	**862,969**	**-332,756**	**-61,166**	**469,047**
Equity and liabilities						
Financial liabilities - HFT	388,764	-	388,764	-21,893	-277,891	88,981
Financial liabilities - FVO	5,309	-	5,309	-	-	5,309
Negative fair value of hedges (hedge accounting)	829,132	-	829,132	-310,864	-466,191	52,077
Total equity and liabilities	**1,223,205**	**-**	**1,223,205**	**-332,756**	**-744,082**	**146,367**

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

4.6.3 Detailed information on hedge accounting

Net gains or losses on hedges

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

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

EUR '000	2020			2019		
	Net gains or losses on basis adjustments to underlyings	Net gains or losses on measurement of hedges	Ineffectiveness	Net gains or losses on basis adjustments to underlyings	Net gains or losses on measurement of hedges	Ineffectiveness
Assets						
Financial assets - FVOCI	**-2,924**	**3,373**	**449**	**-305**	**217**	**-88**
Bonds	-2,924	3,373	449	-305	217	-88
Financial assets - AC	**80,670**	**-76,655**	**4,015**	**112,132**	**-114,223**	**-2,091**
Loans	69,574	-65,526	4,048	105,897	-108,561	-2,664
Bonds	11,095	-11,129	-33	6,235	-5,661	573
Investment property	**115**	**-124**	**-9**	**207**	**-231**	**-24**
Equity and liabilities						
Financial liabilities - AC	**-18,223**	**15,764**	**-2,460**	**-50,042**	**51,277**	**1,235**
Deposits	172	-212	-40	804	-849	-45
Bonds in issue	-18,395	15,976	-2,420	-50,846	52,126	1,280
Total	59,637	-57,642	1,995	61,991	-62,959	-968

The change in "Net gains or losses on hedges" as compared to the net gains or losses on measurement for 2019 is mainly due to the basis risks arising from differing discount curves and to foreign exchange basis risks where these were not taken to OCI.

Positive fair value of hedges (hedge accounting)

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Assets	**3,138**	**6,725**
Financial assets - AC	3,138	6,725
Equity and liabilities	**442,642**	**429,553**
Financial liabilities - AC	442,642	429,553
Total	445,780	436,278

Negative fair value of hedges (hedge accounting)

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Assets	**809,109**	**747,043**
Financial assets - FVOCI	68,707	77,021
Financial assets - AC	740,056	669,801
Investment property	346	222
Equity and liabilities	**20,023**	**20,398**
Financial liabilities - AC	20,023	20,398
Total	829,132	767,441

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

Underlying transactions in fair value hedges

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

	31 Dec. 2020		31 Dec. 2019	
EUR '000	Carrying amounts of underlyings	Basis adjustments contained in the carrying amounts of underlyings	Carrying amounts of underlyings	Basis adjustments contained in the carrying amounts of underlyings
Assets				
Financial assets – FVOCI	**509,799**	**57,522**	**616,359**	**63,440**
Bonds	509,799	57,522	616,359	63,440
Financial assets – AC	**4,150,786**	**707,854**	**3,539,146**	**634,232**
Loans	3,299,637	664,292	3,000,408	601,651
Bonds	851,149	43,561	538,737	32,580
Investment property	**4,160**	**376**	**4,153**	**262**
Equity and liabilities				
Financial liabilities – AC	**7,022,571**	**352,931**	**7,203,076**	**334,867**
Deposits	85,203	1,804	81,549	2,136
Bonds in issue	6,937,368	351,127	7,121,527	332,732

Maturity profile of hedges

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

	Nominal value at 31 Dec. 2020				
EUR '000	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets					
Financial assets - FVOCI	86,000	20,000	230,950	93,500	430,450
Bonds	86,000	20,000	230,950	93,500	430,450
Financial assets - AC	24,184	56,098	669,398	2,680,746	3,430,426
Loans	7,684	48,098	335,390	2,256,811	2,647,984
Bonds	16,500	8,000	334,007	423,935	782,442
Investment property	-	-	-	3,826	3,826
Equity and liabilities					
Financial liabilities - AC	63,900	605,345	3,140,828	2,478,077	6,288,150
Deposits	18,000	-	36,000	27,000	81,000
Bonds in issue	45,900	605,345	3,104,828	2,451,077	6,207,150
Total	174,084	681,443	4,041,176	5,256,149	10,152,852

	Nominal value at 31 Dec. 2019				
EUR '000	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets					
Financial assets - FVOCI	65,500	59,500	260,450	140,000	525,450
Bonds	65,500	59,500	260,450	140,000	525,450
Financial assets - AC	21,220	37,930	519,504	2,328,665	2,907,319
Loans	21,220	36,430	358,848	1,994,750	2,411,248
Bonds	-	1,500	160,656	333,915	496,072
Investment property	-	-	-	3,982	3,982
Equity and liabilities					
Financial liabilities - AC	15,000	1,195,793	2,809,329	2,755,091	6,775,214
Deposits	-	13,000	41,000	29,596	83,596
Bonds in issue	15,000	1,182,793	2,768,329	2,725,495	6,691,618
Total	101,720	1,293,223	3,589,284	5,227,738	10,211,964

4.7 Fair value disclosures

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

Significant accounting policies

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

Level 1

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

Level 2

According to paragraph 81 IFRS 13, this concerns inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, inactive markets, similar assets or liabilities, or other observable data relevant to valuation). This chiefly applies to OTC derivatives ("Financial assets and liabilities – HFT", and "Positive and negative fair values of hedges"), as well as securities not traded on active markets. Assets carried under the "Cash and balances at central banks" item are reported in Level 2 of the hierarchy, with the exception of balances at the OeNB.

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

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

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

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

Level 3

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

The Strategic Risk Management Department defines the methods to be applied in valuation, in accordance with the relevant measurement guidelines. These guidelines, which are regularly updated by the Market and Liquidity Risk team and approved by management, lay down the procedural and operational rules for determining fair value. The Market and Liquidity Risk team measures the fair value of Level 3 assets and liabilities on a monthly basis. The measurement model for the HETA contingent additional purchase price is updated every quarter. The parameters applied are tested for plausibility as part of the monthly measurement process. Corrections are made when justified, and documented. Management is kept informed of changes in Level 3 fair value measurements by means of monthly reports, which comprise an analysis and plausibility assessment of changes, including an explanation of the main reasons behind a change in value.

If there are also significant inputs for Level 3 parameters, then parameters from the lower Level 2 of the hierarchy may enter into the measurement of Level 3 fair values. Premiums determined using internal pricing and calculation models may be applied as price parameters at Level 3.

Level 3 fair values occur in the following items.

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

Here, default risk, liquidity costs and the epsilon are employed as measurement parameters. Default risk is measured using the PD and LGD parameters, as well as eligible collateral. Liquidity premiums are calculated on the basis of the internal liquidity cost model. Upon conclusion of a transaction, the delta for the price is offset using epsilon calibration. For defaulted assets, different assumptions are made for the expected cash flows from the collateralised and uncollateralised portions of the instruments with regard to their due dates. The discount factor applied takes account of the risk-free interest rate, the senior unsecured liquidity costs implied by the maturity of the individual cash flows, and the expected equity yield based on the ROE.

All the senior and junior creditors that participated in the second KAF tender offer are entitled to the HETA contingent additional purchase price (CAPP), irrespective of whether they opted for the cash or exchange offer. The threshold for the CAPP and the payment terms are governed by the second KAF tender offer.

The HETA contingent additional purchase price is measured using an internal model, since it concerns an entitlement and not a traded financial instrument. There is neither a liquid market nor are there observable market transactions for the asset. The parameters for the Level 3 model were determined using available official information on HETA and details from the Austrian Financial Market Authority (FMA), as well as a five-scenario analysis. This took into account all of the information and assumptions that market participants would apply in price formation.

The internal valuation model is based on the following information:

- HETA 2019 annual report and audited financial statements
- HETA corporate presentation on the 2020 wind-down plan, 15 May 2020
- KAF's second tender offer
- Third FMA notice on HETA, 26 March 2019

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

Financial assets – HFT

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

Financial assets – FVOCI (equity instruments)

Working in concert with other organisational units, the General Secretariat - Participations Department coordinates and implements the process for determining the fair values reported under this item. The Group's binding measurement rules, which are regularly updated, provide the framework. These guidelines include the methods, processes and legal framework for measurement. They lay the basis for the implementation of the internal measurement processes and use measurement case studies to establish the key principles, objectives and parameters for business decisions.

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

Financial assets – AC

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

4.7.1 Fair value hierarchy

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

31 Dec. 2020, EUR '000	Carrying amount	Fair value	Fair value measurement		
			Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	1,463,942	1,463,947	1,434,130	29,817	-
Financial assets - HFT	417,189	417,189	-	75,458	341,731
Financial assets - mandatorily FVTPL	171,312	171,312	-	45,467	125,845
Financial assets - FVOCI	514,991	514,991	510,804	2,031	2,156
Financial assets - AC	13,230,957	13,600,701	987,057	141,417	12,472,227
Positive fair value of hedges (hedge accounting)	445,780	445,780	-	445,780	-
Total assets	**16,244,170**				
Equity and liabilities					
Financial liabilities - HFT	388,764	388,764	-	388,764	-
Financial liabilities - FVO	5,309	5,309	-	-	5,309
Financial liabilities - AC	14,274,540	14,382,095	3,207,991	5,742,526	5,431,578
Negative fair value of hedges (hedge accounting)	829,132	829,132	-	829,132	-
Total equity and liabilities	**15,497,745**				

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

In 2020 one financial asset measured at fair value through profit or loss (FVTPL) and one financial asset measured at fair value through other comprehensive income (FVOCI) was transferred from Level 1 to Level 2 due to the absence of an active market. Seven customer derivatives were transferred from Level 2 to Level 3 owing to a change in the depth of the market.

4.7.2 Fair value hierarchy: Level 3 disclosures

EUR '000	1 Jan. 2020	Gains/losses: Recognised in profit or loss	Gains/losses: Not recognised in profit or loss	Purchases	Settle-ments	Transfers to/from Level 3	31 Dec. 2020	Unrealised gains or losses recognised in profit or loss as at 31 Dec. 2020
Assets								
Financial assets - HFT	367,027	-25,432	-	-	-	136	341,731	-24,432
Financial assets - mandatorily FVTPL	156,083	5,264	-	20,262	-55,764	-	125,845	5,264
Financial assets - FVOCI	2,615	-	-415	-	-43	-	2,156	55
Total assets	**525,725**	**-20,168**	**-415**	**20,262**	**-55,807**	**136**	**469,732**	**-19,113**
Equity and liabilities								
Financial liabilities - FVO	4,432	877	-	-	-	-	5,309	-
Total equity and	**4,432**	**877**	**-**	**-**	**-**	**-**	**5,309**	**-**

Details of the gains or losses on assets for which measurements are categorised within Level 3 are provided in Note 4.2.2 Net gains or losses on financial assets and liabilities.

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

Estimation uncertainties and judgements

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

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

31 Dec. 2020, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets - HFT	332,096	612	Hybrid Hull-White model	Global CDS spreads
Financial assets - mandatorily FVTPL (excl. HETA)	96,595	2,685	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets - FVOCI	2,156	N/A	Adjusted net asset value (NAV) model; DCF	Adjusted equity (for adjusted NAV model); WACC (for DCF model)
Total	430,847	3,297		

31 Dec. 2019, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets - HFT	367,027	828	Hybrid Hull-White model	Global CDS spreads
Financial assets - mandatorily FVTPL (excl. HETA)	133,397	3,935	Discounted cash flow (DCF) model	Credit and liquidation risk premiums
Financial assets - FVOCI	2,615	N/A	Adjusted net asset value (NAV) model; DCF	Adjusted equity (for adjusted NAV model); WACC (for DCF model)
Total	503,039	4,763		

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

	Change in fair value	
EUR '000	31 Dec. 2020	31 Dec. 2019
10% increase in adjusted equity	209	246
10% decrease in adjusted equity	-209	-246
50 bp increase in WACC	-1	-11
50 bp decrease in WACC	1	13

Measurement model for the HETA contingent additional purchase price

The valuation model determines the expected amount recovered from the HETA wind-down on the basis of five different scenarios. The base-case scenario is based on HETA's internal assumptions for the expected wind-down proceeds. It corresponds to the official HETA scenario and, despite the risks described, it is therefore given the strongest weighting. To reflect the uncertainties involved, four other scenarios are also taken into account. In these, the assumptions regarding the expected amount recovered and the time when the payout will be made are adjusted, and a level of probability is attached to each scenario. The five scenarios cover a broad range of possible eventualities, and ensure that a reasonable estimate is made of the potential proceeds of resolution and the payout date, taking account of the current uncertainties.

The presentation of the 2020 wind-down plan provides a reassessment of the timeframe. The third FMA notice on HETA stated that the wind-down would be completed by 31 December 2023. However, although the presentation on the 2020 wind-down plan held out the prospect of disposal of the wind-down portfolio by the end of 2023, it is still assumed that there will be difficulties with winding down in the subsequent liquidation procedure, which will only be resolved by the end of 2025. For this reason, a new payout date of 31 December 2025 (2019: 31 Dec. 2023) was applied in the base-case scenario. In the other scenarios, payout of the CAPP is assumed to be earlier or later, reflecting expectations of better or poorer progress with the wind-down. The presentation of the wind-down plan revealed positive trends in expectations regarding the payout ratio, and this was taken into account by overweighting the positive scenarios against the negative scenarios in the valuation model as at the end of the reporting period, as compared with 31 December 2019.

The net present value in each scenario is calculated by discounting the gross carrying amount, applying a customary discount rate, in line with the discounted cash flow model. The discount rate comprises a market interest rate, liquidity costs and entitlement to a given rate of return. The market interest rate and liquidity costs take account of the payout date in each scenario. The rate of return entitlement covers operating costs and earnings entitlements, as well as residual measurement risks (model risk, assumptions, etc.). This entitlement is independent of the scenario, as it reflects the expected total return for an investor. As progress has been made with the wind-down and uncertainty has decreased as a result, which is reflected in the earnings volatility in the model, the assumed rate of return entitlement was reduced in comparison with 31 December 2019.

To determine the final estimate of the additional purchase price, as a first step the net present value in the individual scenarios is multiplied by the scenario weightings applied, and as a second the weighted scenario results are then added together. Depending on the parameters specified for each scenario, at 31 December 2020 the additional purchase price ranged from 4.2% to 8.1% (31 Dec. 2019: from 1.5% to 9.2%).

Measurement of the CAPP is subject to risks and uncertainties. Besides the effects of economic developments and the outcomes of ongoing litigation regarding the amount recovered and the payout date, the information published so far by HETA on the wind-down has consistently deviated from actual events. This uncertainty is counteracted by using the most trustworthy information presently available, and taking account of a variety of scenarios and the estimated probability that they will occur. The effects of changes in significant unobservable inputs for the measurement model on the valuation are presented in the sensitivity analysis below.

This shows the effects of average changes in individual parameters on the CAPP, with other inputs remaining constant (ceteris paribus). The effects are stated as percentages of the nominal value of the original HETA receivables. The impacts of changes in parameters on profit or loss are also shown, as absolute amounts stated in EUR thsd. The three inputs are Level 3 (unobservable) parameters. If the amount recovered rises by EUR 100m, this results in a 0.3 percentage point increase in the valuation, which translates into a profit of EUR 1,039thsd. A reduction in the discount rate and bringing the payout date forward by one year earlier also result in a higher valuation.

31 Dec. 2020 Sensitivity analysis: Level 3 parameters	Recovery, EUR m		Discount rate		Payout date, years	
	+100	-100	+1%	-1%	+1	-1
Valuation sensitivity to profit or loss (%)	+0.3%	-0.4%	-0.3%	+0.3%	-0.3%	+0.4%
Valuation sensitivity to profit or loss (EUR '000)	1,039	-1,063	-890	940	-1,025	1,079

31 Dec. 2019 Sensitivity analysis: Level 3 parameters	Recovery, EUR m		Discount rate		Payout date, years	
	+100	-100	+1%	-1%	+1	-1
Valuation sensitivity to profit or loss (%)	+0.6%	-0.6%	-0.2%	+0.2%	-0.4%	+0.4%
Valuation sensitivity to profit or loss (EUR '000)	1,734	-1,834	-529	553	-1,259	1,358

5 ADDITIONAL NOTES TO THE STATEMENT OF PROFIT OR LOSS

5.1 Net fee and commission income

Significant accounting policies

Fee and commission income from services rendered over a period of time (mostly derived from payment transactions) is recognised over the period of service provision. Fee and commission income that is an integral component of the effective rate of interest on a financial instrument is reported as interest income. Income from transaction-related services (fee and commission income from securities business, and from the intermediation of home loan saving agreements and insurance contracts) is recognised when the service has been rendered in full.

In accordance with IFRS, trust transactions entered into by the HYPO NOE Group in its own name but for the account of third parties are not shown in the statement of financial position. Any fees and commissions are reported in the statement of comprehensive income.

2020, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Total
Fee and commission income	**2,872**	**1,415**	**15,326**	**925**	**-4**	**77**	**20,611**
Securities and custody account business	161	7	5,285	765	-	5	6,222
Payment transactions	540	734	5,166	66	-	3	6,509
Foreign exchange, foreign notes and coins, and precious metals	14	10	228	1	-	-	253
Other services	2,354	1	3,606	89	-	76	6,126
Other fee and commission income	-197	663	1,042	4	-4	-7	1,502
Fee and commission expense	**-102**	**-33**	**-2,176**	**-937**	**-**	**6**	**-3,242**
Securities and custody account business	-14	-1	-893	-531	-	6	-1,434
Payment transactions	-17	-26	-1,245	-406	-	-11	-1,705
Other services	-	-	-28	-	-	-	-28
Other fee and commission expenses	-70	-6	-10	-	-	10	-76
Total	**2,770**	**1,381**	**13,150**	**-12**	**-4**	**83**	**17,369**

2019, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Total
Fee and commission income	**3,182**	**1,093**	**15,815**	**194**	**-**	**14**	**20,299**
Securities and custody account business	136	14	5,596	26	-	20	5,792
Payment transactions	647	702	5,441	78	-	8	6,876
Foreign exchange, foreign notes and coins, and precious metals	9	2	205	4	-	4	223
Other services	2,416	1	3,403	174	-	4	5,999
Other fee and commission income	-26	374	1,171	-88	-	-22	1,409
Fee and commission expense	**-135**	**-38**	**-2,467**	**-660**	**-5**	**27**	**-3,277**
Securities and custody account business	-13	-	-988	-430	-	-8	-1,439
Payment transactions	-20	-16	-1,457	-230	-	-14	-1,737
Other services	-	-	-17	-	-	-1	-17
Other fee and commission expenses	-102	-22	-6	-	-5	50	-84
Total	3,048	1,055	13,347	-465	-5	42	17,022

Fee and commission income increased in spite of the outbreak of the Covid-19 pandemic.

5.2 Net other operating income

EUR '000	2020	2019
Other income	**31,675**	**37,423**
Gains on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	329	508
Gains on the reversal of provisions	1,070	1,586
Gains on foreign currency translation	-	743
Gains on deconsolidation	201	60
Gains on investment property	3,108	2,953
Other rental income	342	319
Income from real estate services and property development	19,310	23,792
Early repayments	5,812	4,332
Sundry other income	1,501	3,131
Other expenses	**-19,922**	**-23,003**
Losses on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	-143	-137
Depreciation and impairment of inventories	-295	-
Expenses arising from the recognition of provisions	-6,514	-8,502
Losses on foreign currency translation	-139	-
Losses on deconsolidation	-35	-
Losses on investment property	-1,965	-1,936
Expenses from real estate services and property development	-9,617	-11,056
Sundry other expenses	-1,215	-1,373
Total	11,752	14,420

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

Gains on deconsolidation

EUR '000	2020	2019
Financial assets – AC	-	63
Positive fair value of hedges (hedge accounting)	329	-
Property, plant and equipment	38	6
Current tax assets	3	-
Deferred tax assets	110	-
Other assets	2,569	144
Total assets	3,050	213
Financial liabilities – AC	-	56
Provisions	214	58
Other liabilities	2,652	8
Total liabilities	2,866	122
Proceeds of disposal	291	151
- Assets disposed of	-3,050	-213
+ Liabilities disposed of	2,866	122
Net gains on disposal of consolidated subsidiaries	108	60
Analysis of recognised income and expense (IAS 19)	59	-
Net gains on disposal of consolidated subsidiaries through profit or loss	167	60

EUR '000	2020	2019
Consideration received in cash and cash equivalents	291	151
Cash proceeds from the disposal of subsidiaries	291	151
Amount outstanding from the corporate transaction	-	-

The "Net gains on disposal of consolidated subsidiaries" reported in the previous year related to the sale of a subsidiary of the HYPO NOE Group. In 2020, this disposal resulted in a gain in the shape of a compensation payment related to the fulfilment of the requirements of a conditional purchase price. Another Group subsidiary was sold during the reported period, which is reflected in the "Net gains on disposal of consolidated subsidiaries" item.

5.3 Administrative expenses

5.3.1 Analysis of administrative expenses

Analysis of administrative expenses

EUR '000	2020	2019
Staff costs	**-56,463**	**-60,723**
Wages and salaries	-44,651	-48,301
Pensions and other employee benefit expenses	-11,812	-12,421
Other administrative expenses	**-43,740**	**-44,536**
Premises	-3,365	-4,020
Office and communication expenses	-1,354	-1,323
IT expenses	-10,624	-10,834
Legal and consultancy costs	-2,188	-1,265
Auditors: annual audit	-457	-443
Auditors: other auditing services	-59	-35
Auditors: tax consultancy services	-101	-108
Auditors: other services	-104	-141
Advertising and entertainment expenses	-3,911	-4,755
Other administrative expenses	-22,297	-22,340
Financial stability contribution (bank tax)	-8,602	-8,517
Deposit insurance fund and resolution fund	-8,408	-7,521
Cost of compliance with company law	-580	-679
Training costs	-416	-463
Vehicle and fleet expenses	-482	-747
Insurance	-473	-500
Cost of information procurement and payment transactions	-699	-720
Depreciation, amortisation and impairment	**-4,642**	**-4,809**
Intangible assets	-380	-417
Buildings used by Group companies	-1,543	-1,545
Equipment, fixtures and furnishings (incl. low value assets)	-2,146	-2,221
Right-of-use assets (IFRS 16)	-572	-627
Total	-104,844	-110,067

The year-on-year reduction in administrative expenses was due to the continued energetic implementation of the efficiency programme. The Covid-19 pandemic contributed to a further reduction in administrative expenses.

In addition to the annual financial stability contribution, in 2016 all banks were required to make a one-off payment. At year-end 2016, the HYPO NOE Group opted to spread this non-recurring payment across the four years up to 2020, as permitted by section 5 *Stabilitätsabgabegesetz* (Stability Contribution Act).

5.3.2 Staff costs

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

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

	2020	2019
Average number of employees (incl. staff on parental leave)	730	760

EUR '000	2020	2019
Termination benefit expenses incl. provident fund for:	**-1,105**	**-1,243**
Management Board	-15	-15
Key management	-88	-126
Other employees	-1,002	-1,102
Pension expenses for:	**-1,162**	**-1,434**
Management Board	-93	-89
Key management	-191	-196
Other employees (including former employees)	-877	-1,149
Expenses for former officers	**203**	**-977**
Former Management Board members and their surviving dependents: allocations to/reversals of the pension provision	388	-561
Pensions paid to former Management Board members and their surviving dependents	-360	-355
Former Supervisory Board members: allocations to/reversals of the pension provision	200	-39
Former Supervisory Board members: pensions paid	-25	-22

EUR '000	2020	2019
Salaries of Management Board members	**-1,064**	**-1,053**
Short-term employee benefits	-1,064	-1,053
Current remuneration	-890	-879
Supervisory Board members' remuneration (non-employees)	**-117**	**-112**
Supervisory Board members' salaries	**-494**	**-480**
Remuneration of key management:	**-5,700**	**-5,787**
Current remuneration	-4,880	-5,005
Other short-term employee benefits	-540	-461
Post-employment benefits	-279	-291
Other long-term benefits	-13	-27
Provision for termination benefits	13	-3

6 ADDITIONAL NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

Significant accounting policies

Land and buildings held to earn rentals or for expected capital appreciation are classified as investment property. In cases of mixed occupancy, significant parts of land and buildings used by third parties are likewise reported as investment property, provided that the conditions for separate letting or sale are met. Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are reported as property, plant and equipment. The HYPO NOE Group held only intangible assets acquired for consideration and no self-constructed intangible assets in 2020.

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

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

Estimation uncertainties and judgements

The items "Investment property", "Intangible assets" and "Property, plant and equipment" are measured at cost less accumulated depreciation. Depreciation and amortisation are on a straight-line basis over the normal useful lives of the assets. The following useful lives are applied:

- Buildings and building alterations — 25-50 years
- Equipment, fixtures and furnishings — 4-15 years
- Computer software and hardware — 3-5 years
- Right-of-use assets (IFRS 16) — 4-10 years

Any indications of impairment are assessed on the basis of expert opinions, and impairments are recognised where necessary.

EUR '000	1 Jan.-31 Dec. 2020	1 Jan.-31 Dec. 2019
Other income from investment property	**3,108**	**2,953**
Rental income	2,562	2,446
Other income	546	507
Other expenses arising from investment property	**-1,965**	**-1,936**
Depreciation, amortisation and impairment	-1,657	-1,658
Expenses arising from let investment property	-304	-277
Total	1,144	1,017

EUR '000	31 Dec. 2020		31 Dec. 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Land and buildings	57,155	69,154	58,683	72,507
Investment property	36,693	46,262	38,235	45,204

The table below shows movements in intangible assets, property, plant and equipment, and investment property.

	Cost							Accumulated depreciation and amortisation						Carrying amount	
EUR '000	1 Jan. 2020	Changes in scope of consol-idation	Addi-tions	Dispos-als	Trans-fers	Other changes	31 Dec. 2020	1 Jan. 2020	Changes in scope of consol-idation	Depreci-ation, amorti-sation and impair-ment	Trans-fers	Dispos-als	31 Dec. 2020	1 Jan. 2020	31 Dec. 2020
Intangible assets															
Software	8,873	-79	165	-4	-	-	8,954	-8,409	76	-380	-	-	-8,713	463	241
Goodwill	877	-	-	-	-	-	877	-877	-	-	-	-	-877	-	-
Total intangible assets	9,750	-79	165	-4	-	-	9,831	-9,286	76	-380	-	-	-9,590	463	241
Property, plant and equipment															
Land	13,080	-	-	-76	-	-	13,004	-94	-	-1	-	76	-19	12,986	12,985
Buildings	62,524	-	16	-580	-	-	61,959	-16,826	-	-1,543	-	580	-17,789	45,698	44,170
IT equipment	3,869	-31	123	-76	5	-	3,890	-3,455	24	-262	-	76	-3,616	414	273
Furniture and fixtures, and office equipment	31,969	-155	1,812	-1,866	-110	-	31,650	-25,686	124	-1,816	105	1,751	-25,522	6,283	6,128
Right-of-use assets (IFRS 16)	3,351	-	41	-373	-	-	3,020	-627	-	-572	-	-	-1,199	2,725	1,821
Other property, plant and equipment	118	-	68	-69	105	-	221	-21	-	-68	-105	69	-124	97	97
Total property, plant and equipment	114,910	-186	2,060	-3,041	-	-	113,743	-46,709	149	-4,262	-	2,553	-48,269	68,201	65,475
Total investment property	48,664	-	-	-	-	115	48,779	-10,429	-	-1,657	-	-	-12,086	38,235	36,693

	Cost							Accumulated depreciation and amortisation						Carrying amount	
EUR '000	1 Jan. 2019	Changes in scope of consol-idation	Addi-tions	Dispos-als	Trans-fers	Other changes	31 Dec. 2019	1 Jan. 2019	Changes in scope of consol-idation	Depreci-ation, amorti-sation and impair-ment	Trans-fers	Dispos-als	31 Dec. 2019	1 Jan. 2019	31 Dec. 2019
Intangible assets															
Software	8,889	-	132	-148	-	-	8,873	-8,134	-	-417	-	141	-8,409	755	463
Goodwill	877	-	-	-	-	-	877	-877	-	-	-	-	-877	-	-
Total intangible assets	9,766	-	132	-148	-	-	9,750	-9,011	-	-417	-	141	-9,286	755	463
Property, plant and equipment															
Land	13,030	-	79	-	-30	-	13,080	-17	-	-1	-	-76	-94	13,013	12,986
Buildings	62,036	-	552	-	-65	-	62,524	-15,072	-	-1,544	-	-210	-16,826	46,965	45,698
IT equipment	4,482	-	325	-1,051	113	-	3,869	-4,126	-	-277	-101	1,049	-3,455	357	414
Furniture and fixtures, and office equipment	32,742	-	2,017	-2,583	-207	-	31,969	-26,298	-	-1,898	101	2,408	-25,686	6,444	6,283
Right-of-use assets (IFRS 16)	3,194	-	401	-243	-		3,351	-	-	-627	-	-	-627	-	2,725
Other property, plant and equipment	33	-	-	-113	198	-	118	-33	-	-46	-31	89	-21	1	97
Total property, plant and equipment	115,517	-	3,374	-3,991	10	-	114,910	-45,545	-	-4,392	-31	3,260	-46,709	66,780	68,201
Total investment property	48,412	-	-	-	-10	262	48,664	-8,804	-	-1,658	31	1	-10,429	39,608	38,235

6.1.1 Operating leases (with the Group as lessor)

The minimum lease payments presented as operating leases relate to the item reported as "Investment property" in the statement of financial position. Future minimum lease payments on non-cancellable leases amount to EUR 1,815thsd per year over the next five years.

EUR '000	2020	2019
Operating leases		
Lease income	2,904	2,038

6.1.2 Right-of-use assets (IFRS 16)

EUR '000	31 Dec. 2020			31 Dec. 2019		
Right-of-use assets (IFRS 16)	Carrying amount	Additions	Depreciation and amortisation	Carrying amount	Additions	Depreciation and amortisation
Land and buildings	1,703	60	-469	2,225	313	-439
Vehicles	33	4	-51	80	13	-63
Parking spaces	75	-	-42	175	75	-56
IT equipment	10	-	-11	11	-	-5
Office equipment	-	-	-	18	-	-9
Other	-	-	-	215	-	-54
Total	**1,821**	**64**	**-572**	**2,725**	**401**	**-627**

EUR '000	1 Jan.-31 Dec. 2020	1 Jan.-31 Dec. 2019
Leases with the Group as lessee – supplementary information		
Payments for leases of low-value assets	-2	-5
Short-term lease payments	-596	-764
Total cash outflow for leases	-1,286	-630

6.2 Provisions

Significant accounting policies

Employee benefit provisions

There are both defined contribution and defined benefit plans in the HYPO NOE Group. Under the defined contribution schemes, defined contributions are paid to an external fund. As the employer has no legal or other obligation to make additional payments, there is no need to recognise a provision.

Since 1 January 2019, the defined contribution entitlements have been administered by APK Pensionskasse AG. Under the works agreement in force at HYPO NOE Landesbank für Niederösterreich und Wien AG and HYPO NOE Leasing GmbH since 1 January 2019, 2.7% of eligible salaries are paid to the pension fund on behalf of ordinary employees, 6% on behalf of departmental heads with all-in contracts, and 9.76% on behalf of division heads and other management members of like status. Where there were different agreements on contributions in the past, these remain in force. In the case of employees who joined the pension scheme on or before 31 December 2012, the employer's contributions vest five years after payments begin; in that of employees joining on or after 1 January 2013, they do so three years after commencement. Since 1 January 2019, eligibility for employer's contributions has been conditional on two years' service; prior service may be counted (for entrants before 1 January 2019 the waiting period was five years). At HYPO NOE Immobilien Beteiligungsholding GmbH the pension fund arrangements apply to one chief executive, but no contributions are being paid yet. In 2020 contributions of EUR 970thsd (2019: EUR 990thsd) were made on behalf of Group companies consolidated as at 31 December 2020.

There are also defined benefit pension, and termination and jubilee benefit commitments. These plans are unfunded. The long-term employee benefit provisions are measured using the projected unit credit method, in accordance with IAS 19. Future obligations are measured on the basis of a report by an independent actuary. Recognition in the consolidated statement of financial position is at the present value of the defined benefit obligation. Actuarial gains and losses on the termination benefit and pension provision are recognised in equity, under the "Actuarial gains and losses recognised in other reserves" item. Actuarial gains and losses on the jubilee benefit provision are shown under "Administrative expenses" (Note 5.3) in the statement of profit or loss.

Credit provisions

This item comprises provisions for credit risks such as unused but irrevocable credit lines and guarantees.

Other provisions

Allocations to and reversals of the other provisions are made to/charged to the various profit or loss items concerned on a causation basis.

Provision for negative interest rates on corporate loans

The reason for the provision is the negative interest rate precedents created by consumer and commercial law proceedings, which in some cases may lead to obligations to make repayments. As the amount of the provision is subject to considerable uncertainties, the assessment of the expected outflow of resources was based on a three-scenario model with the most accurate possible weighting. Key factors in the uncertainty of the estimates are the timing of a supreme court verdict, and the amount and timing of potential out-of-court settlements.

As at 31 December 2020 the provision stood at EUR 34,068thsd (31 Dec. 2019: EUR 28,070thsd). Accordingly, the change in the "Other provisions" item is principally due to the additional allocations to the provision for negative interest rates arising from corporate loan agreements.

As this provision relates to a legal risk, the recognition of allocations to it forms part of other operating expense as well as any reversals of other operating income.

Disclosures on employee benefits

Current service cost and interest cost are recognised in profit or loss, under "Staff costs"(Note 5.3.2). The actuarial gains and losses are due entirely to changes in the financial assumptions applied.

The HYPO NOE Group's defined benefit plans give rise to pension, termination benefit and jubilee benefit obligations. IAS 19 defines pension and termination benefit obligations as benefits that are payable after the completion of employment. Jubilee benefits are classified as other long-term employee benefits. At present, the HYPO NOE Group has no defined benefit pension plans, and the remaining obligations have been transferred to an outside pension fund. The only other defined benefit obligations are to retired employees and their surviving dependents where the latter have entitlements. The remaining obligations have been transferred to an outside pension fund. The average duration of the pension obligation is 10.5 years, and that of the termination benefit obligation is 11.6 years. The HYPO NOE Group does not have any plan assets.

There are termination benefit obligations under superseded legislation. These are to employees who entered the service of the Group before 1 January 2003 and have not already received termination benefits as a result of a group transfer. Under the new termination benefit legislation, the benefits are contracted out to a termination benefit fund (see the "Expenses for provident fund" item in "Staff costs" [Note 5.3.2]). The jubilee benefits depend on employees' length of service and are governed by the collective agreement applicable to the employment contract concerned.

Estimation uncertainties and judgements

Employee benefit provisions

Measurement of the long-term employee benefit provisions was based on the statutory retirement ages of 60 for women and 65 for men. Account was taken of the staged increase in the retirement age for women from 60 to 65.

The discount rate applied to measurement at the end of the reporting period was 0.85% p.a. (2019: 0.7% p.a.) As in previous years, this was determined on the basis of industrial bonds with highly rated issuers, and the assessments of experts in the eurozone were used to test plausibility. The interest rate used corresponds to the benchmark ruling as at 31 December 2020, with an average residual maturity of about 11 years. By contrast, rates in 2019 were attributable to a conservative attitude, and remained within existing bands.

Future salary increases of 2.3% p.a. (2019: 2.3% p.a.), and future pension increases of 2.0% p.a. (2019: 2.0% p.a.) were assumed. An adjustment of 7.0% p.a. for employee turnover was applied to the jubilee benefit provision (2019: 7.0% p.a.).

Measurement was based on the biometric estimates contained in the latest Austrian actuarial table for pension insurance, "*AVÖ 2018 – P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, Angestelltenbestand*". Use of this table for the measurement of employee benefit obligations is recommended by the Actuarial Association of Austria.

Other provisions

Measurement is based on estimates by independent experts, on the Bank's own experience, and on discounted cash flow methods. The carrying amounts reflect best estimates of the expenditure (outflow of resources) required to settle the obligations.

6.2.2 Movements in provisions

EUR '000	1 Jan. 2020	Changes in scope of consol-idation	Allocations	Utilisation	Reversals	Discount unwinding effect	Reme asur-ement	31 Dec. 2020
Employee benefit provisions	**35,571**	**-248**	**616**	**-2,219**	**-1**	**248**	**-2,163**	**31,803**
Provisions for pensions	21,936	-	-	-1,352	-	154	-1,477	19,262
Provisions for termination benefits	10,923	-241	370	-809	-	74	-496	9,822
Provisions for jubilee benefits	2,711	-7	246	-59	-1	20	-191	2,719
Credit provisions	**2,734**	**-**	**2,096**	**-**	**-2,036**	**-**	**-**	**2,794**
Other provisions	**29,965**	**-56**	**6,702**	**-892**	**-982**	**33**	**-**	**34,770**
Total	**68,270**	**-304**	**9,413**	**-3,111**	**-3,019**	**281**	**-2,163**	**69,367**

The decrease of EUR 3,768thsd in the employee benefit provisions is largely explained by the annual remeasurement (comparison of the parameter assumptions with the actual figures). The details are given in Note 6.2.3 Disclosures on employee benefits. The "Changes in scope of consolidation" column includes the reversal of employee benefit provisions due to the deconsolidation of a consolidated subsidiary.

6.2.3 Disclosures on employee benefits

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Present value of DBO at 31 Dec. 2018	**20,685**	**10,160**	**2,174**	**33,019**
Service cost	-	471	180	651
Interest cost	372	193	42	607
Payments	-1,313	-938	-66	-2,317
Actuarial gains and losses recognised in profit or loss			381	381
Actuarial gains and losses not recognised in profit or loss	2,193	1,038		3,230
Present value of DBO at 31 Dec. 2019	**21,936**	**10,923**	**2,711**	**35,571**
Change in scope of consolidation	-	-241	-7	-248
Service cost	-	370	244	614
Interest cost	154	74	20	248
Payments	-1,352	-809	-59	-2,219
Actuarial gains and losses recognised in profit or loss			-191	-191
Actuarial gains and losses not recognised in profit or loss	-1,477	-496		-1,972
Present value of DBO at 31 Dec. 2020	**19,262**	**9,822**	**2,719**	**31,803**

The first table shows the present values of the defined benefit obligations (DBOs) in respect of the employee benefit provisions (pensions, termination benefits and jubilee benefits) as at 31 December 2020, and the service and interest cost, as well as the underlying assumptions (discount rate, and salary and pension increases) for 2020 on which the calculations are based. The amounts for members of the Supervisory and Management Boards and for key management are also shown.

These DBOs are subject to longevity and discount rate risk.

31 Dec. 2020, EUR '000 Discount rate 0.85%, salary increase 2.3%, pension increase 2.0%	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
DBO	19,262	9,822	2,719	31,803
Current service cost	-	434	227	661
Interest cost	167	88	25	280
Supervisory and Management boards				
DBO	-	268	39	307
Service cost	-	13	2	15
Interest cost	-	5	1	6
Key management staff (identified staff)				
DBO	-	185	68	253
Service cost	-	11	5	16
Interest cost	-	5	1	6

Estimation uncertainties and judgements

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

The first two calculations show the sensitivity to a change in the discount rate (plus or minus 0.25%) with the remaining parameters unchanged. The others show the effects of the following assumptions: salary increases or reductions of 0.25%, pension increases or reductions of 0.25%, and a rise or fall of one year in life expectancy, while the remaining parameters are unchanged.

The last line of the table models DBO given that the parameters remain unchanged from the previous year.

Provision for pensions, EUR '000	DBO
Carrying amounts as at 31 Dec. 2020: 0.25% discount rate increase	
Discount rate 1.10%; salary increase 2.3%; pension increase 2.0%	19,123
Carrying amounts as at 31 Dec. 2020: 0.25% discount rate reduction	
Discount rate 0.60%; salary increase 2.3%; pension increase 2.0%	20,154
Carrying amounts as at 31 Dec. 2020: 0.25% pension increase	
Discount rate 0.85%; salary increase 2.3%; pension increase 2.25%	20,154
Carrying amounts as at 31 Dec. 2020: 0.25% pension reduction	
Discount rate 0.85%; salary increase 2.3%; pension increase 1.75%	19,123
Carrying amounts as at 31 Dec. 2020: 1-year increase in life expectancy	
Discount rate 0.85%; salary increase 2.3%; pension increase 2.0%	20,750
Carrying amounts as at 31 Dec. 2020: 1-year decrease in life expectancy	
Discount rate 0.85%; salary increase 2.3%; pension increase 2.0%	18,545
Carrying amounts as at 31 Dec. 2020: previous year's discount rate	
Discount rate 0.7%; salary increase 2.3%; pension increase 2.0%	19,940

Provision for termination benefits, EUR '000	DBO
Carrying amounts as at 31 Dec. 2020: 0.25% discount rate increase	
Discount rate 1.10%; salary increase 2.3%; pension increase 2.0%	9,662
Carrying amounts as at 31 Dec. 2020: 0.25% discount rate reduction	
Discount rate 0.60%; salary increase 2.3%; pension increase 2.0%	10,198
Carrying amounts as at 31 Dec. 2019: 0.25% salary increase	
Discount rate 0.85%; salary increase 2.55%; pension increase 2.0%	10,233
Carrying amounts as at 31 Dec. 2020: 0.25% salary decrease	
Discount rate 0.85%; salary increase 2.05%; pension increase 2.0%	9,670
Carrying amounts as at 31 Dec. 2020: previous year's discount rate	
Discount rate 0.7%; salary increase 2.3%; pension increase 2.0%	10,107

6.3 Other assets and liabilities

Significant accounting policies

"Other assets and liabilities" largely relates to other non-bank receivables and liabilities.

Other assets

EUR '000	31 Dec. 2020	31 Dec. 2019
Accruals and deferrals, and contract assets in accordance with IFRS 15	9,076	9,717
VAT and other tax credits (other than income tax)	498	16,781
Trade receivables	1,989	4,187
Offset receivables (public loan management)	103	185
Offset receivables (other)	1,150	1,224
Property classified as inventory	-	295
Non-consolidated subsidiaries	808	1,122
Sundry other receivables	3,765	4,999
Total	17,390	38,509

The VAT and other tax credits of EUR 16,781thsd as at 31 December 2019 are due to the purchase of a state hospital, owned by a consolidated leasing company, in October 2019.

Other liabilities

EUR '000	31 Dec. 2020	31 Dec. 2019
Accruals and deferrals, and contract liabilities in accordance with IFRS 15	25,357	22,549
VAT and other tax liabilities (other than income tax)	7,174	5,954
Trade liabilities	30,694	24,340
Offset liabilities (public loan management)	2,870	3,029
Other offset liabilities	29,684	12,210
Employee liabilities	5,508	6,624
Lease liabilities in accordance with IFRS 16	1,824	2,727
Sundry other liabilities	3,126	8,262
Total	106,237	85,695

The table below shows a maturity analysis in accordance with para. 58 IFRS 16 for the lease liabilities contained in the "Other liabilities". Further information on the HYPO NOE Group in its capacity as a lessee can be found in "Right-of-use assets (IFRS 16)" (see Note 6.1.2).

EUR '000	2020	2019
Lease liabilities by term		
Up to 1 year	504	631
1 to 2 years	434	608
2 to 3 years	387	518
3 to 4 years	162	470
4 to 5 years	112	166
Over 5 years	226	335
Total	1,824	2,727

7 TAXES

Significant accounting policies

Current tax assets and liabilities are measured at current rates and the amounts expected to be paid to or recovered from the taxation authorities. HYPO NOE Landesbank für Niederösterreich und Wien AG is liable to tax in Austria. Since 2008, use has been made of the option of group taxation, with HYPO NOE Landesbank für Niederösterreich und Wien AG acting as the tax group parent company. To this end, the parent has concluded group taxation agreements governing tax contributions, reporting duties and due dates with each group member. Positive tax contributions are reported as 25% of the Group entity's profit, and negative tax contributions as 20% of the Group entity's loss.

Deferred tax assets and liabilities are measured using the balance sheet liability method. The tax base of an asset is compared with the IFRS carrying amount, and deferred tax recognised for the temporary difference. If a tax liability is probable when the temporary difference reverses, a deferred tax liability is recognised. Deferred tax assets are recognised for temporary differences that result in tax reductions when they reverse. Offsetting of deferred tax assets and liabilities is performed on a company-by-company basis. Pursuant to IAS 12, deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset within the tax group, in accordance with paragraph 74 IAS 12.

Deferred tax assets and liabilities are recognised and reversed either in profit or loss, under "Income tax expense", or in equity if the underlying item is recognised outside profit or loss (e.g. "Other reserves composed of debt instruments – FVOCI").

Estimation uncertainties and judgements

Deferred tax assets are recognised for tax loss carryforwards if it is likely that sufficient taxable profit will be available. The HYPO NOE Group's tax loss carryforwards are recognised in Austria and are available for use without time limit. The relevant calculations are based on an updated budget for each company, and a distinction is made between realisable and non-realisable tax loss carryforwards. The assumed time horizon is five years (or, in the case of project companies, a horizon equal to the contractual term). The carrying amounts of deferred tax assets arising from tax loss carryforwards and temporary differences are reviewed at the end of each reporting period. No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 10,338thsd (2019: EUR 14,112thsd).

7.1 Income tax

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

EUR '000	2020	2019
Current income tax	-11,522	-7,646
Deferred income tax	2,241	355
Total	-9,281	-7,291

7.2 Tax reconciliation

A reconciliation of the expense that would result from applying the standard rate of corporation tax to the reported tax expense is shown below.

EUR '000	2020	2019
Profit before tax	**41,156**	**37,692**
x income tax rate	**25%**	**25%**
= anticipated income tax expense	**-10,289**	**-9,423**
Reductions in tax liability	**1,063**	**1,587**
Tax-free income from investments	187	474
Other tax-free income	640	660
Investments accounted for using the equity method	237	453
Increases in tax liability	**-864**	**-1,219**
Non-deductible expenses	-864	-1,219
Tax effects of other differences	**808**	**1,764**
Previous years	788	1,893
Prepayments	-15	-12
Differences in tax rates for Group taxation	14	-
Other adjustments	22	-117
Total	-9,281	-7,291

"Increases in tax liability" result from non-deductible expenses, such as the financial stability contribution, which has not been tax-deductible since 2017.

"Tax effects of other differences" mainly comprises deferred tax assets arising from the recognition of deferred taxes attributable to tax loss carryforwards at project companies whose earnings situation has improved significantly due to the conclusion of agreements for new real estate leasing projects.

7.3 Deferred income tax

EUR '000	Net deferred taxes, 1 Jan. 2020	Changes in scope of consolidation	Change in 2020		Net deferred taxes, 31 Dec. 2020	Assets	Liabilities
			Recognised in profit or loss	Recognised outside profit or loss			
Financial assets - HFT	-100,422	-	12,258	-	-88,164	-	-88,164
Financial assets - mandatorily FVTPL	-4,407	-	-3,392	-	-7,799	-	-7,799
Financial assets - FVOCI	-19,460	-	1,332	1,015	-17,113	2	-17,115
Financial assets - AC	-182,319	-	-12,664	-	-194,983	1,017	-196,001
Positive fair value of hedges (hedge accounting)	-96,214	-	-627	-	-96,841	-	-96,841
Other assets (statement of financial position)	3,466	-4	-3,280	-	183	1,995	-1,812
Financial liabilities - HFT	98,990	-	-12,827	-	86,163	86,163	-
Financial liabilities - AC	82,927	-	3,519	-	86,446	86,446	-
Negative fair value of hedges (hedge accounting)	186,677	-	13,349	-	200,027	200,027	-
Other liabilities (statement of financial position)	-3,033	-126	4,679	-496	1,025	4,161	-3,137
Tax loss carryforwards available for use without time limit	8,720	-	-106	-	8,614	8,614	-
less deferred tax liabilities	-	-	-	-	-	-388,016	388,016
Total	-25,075	-130	2,241	519	-22,445	408	-22,853

EUR '000	Net deferred taxes, 1 Jan. 2019	Changes in scope of consolidation	Change in 2019		Net deferred taxes, 31 Dec. 2019	Assets	Liabilities
			Recognised in profit or loss	Recognised outside profit or loss			
Financial assets - HFT	-98,356	-	-2,066	-	-100,422	-	-100,422
Financial assets - mandatorily FVTPL	-3,076	-	-1,331	-	-4,407	-	-4,407
Financial assets - FVOCI	-20,718	-	-189	1,447	-19,460	-	-19,461
Financial assets - AC	-158,475	-	-23,844	-	-182,319	1,212	-183,532
Positive fair value of hedges (hedge accounting)	-80,076	-	-16,139	-	-96,214	-	-96,214
Other assets (statement of financial position)	2,916	-	550	-	3,466	5,391	-1,925
Financial liabilities - HFT	95,095	-	3,894	-	98,990	98,990	-
Financial liabilities - AC	70,554	-	12,373	-	82,927	82,927	-
Negative fair value of hedges (hedge accounting)	158,359	-	28,318	-	186,677	186,677	-
Other liabilities (statement of financial position)	-2,235	-	-1,617	819	-3,033	4,214	-7,247
Tax loss carryforwards available for use without time limit	8,315	-	405	-	8,720	8,720	-
less deferred tax liabilities	-	-	-	-	-	-386,970	386,970
Total	-27,696	-	355	2,266	-25,075	1,162	-26,238

Net deferred tax credits of EUR 519thsd (2019: EUR 2,266thsd) were recognised directly in equity. The basis for non-recognition of deferred tax in profit or loss for associates and joint ventures was negative by EUR 947thsd (2019: negative by EUR 1,814thsd).

The taxable temporary differences related to interests in affiliated companies, joint ventures and associates, for which no deferred tax liabilities were recognised under paragraph 39 IAS 12 (outside basis differences), totalled EUR 1,449thsd (2019: EUR 621thsd).

8 RISK MANAGEMENT

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

All significant business activities derived from the Group's strategic objectives are developed with an eye to strategic risk considerations, and with a strong focus on risk-bearing capacity. The Bank attaches particular importance to assessment of risks in the light of the risk-reward ratio. Risks are not ends in themselves but are assumed in the interests of value creation and hence improved risk-bearing capacity, as well as adequate returns on risk capital. The refinement of instruments and processes aimed at maintaining an adequate risk-reward ratio is seen as an integral component of the Group's long-term business development strategy.

The Group's risk-bearing capacity is safeguarded by a balanced relationship between risks and coverage capital. To this end, eligible risk coverage capital is very carefully defined, and the confidence level for risk quantification (i.e. the probability of loss) is set at a conservative level.

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

Risk management system

Achieving business success necessarily involves taking risks. The HYPO NOE Group practises active risk transformation and risks are consciously incurred in connection with it. The Group's risk management objectives are to identify, measure, actively manage and monitor all risks arising from banking operations (credit, market, liquidity, operational, reputational and other risks).

The Group's organisational structure provides for a clear separation of front and back office functions (four-eye principle) at every level up to and including the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast an additional, independent vote that confers final approval. The internal division of responsibilities requires the unanimous approval of the front and back office functions for all business decisions that would alter the risk profile. There are also rules for the ultimate approval of exposures requiring resolutions of the Group's Supervisory Board.

In principle, all risks throughout the HYPO NOE Group are subject to a Group-wide, uniform limit system, which is constantly monitored. A Group-wide risk reporting system ensures timely, regular and comprehensive reporting of all risks. In addition to the quarterly risk management report, which provides an aggregated summary of all identified material capital risks and the available capital coverage, and the monthly analysis of insolvency risk, the Management and Supervisory Boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk-related developments.

The disclosures required by Part 8 of the CRR are made on a consolidated basis for the HYPO NOE Group, in a separate document posted on the corporate website (https://www.hyponoe.at/en/home).

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

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. In spite of the risk management methods and internal control processes in place, the Group may still be exposed to unknown and unexpected risks. Neither can the risk management techniques and strategies applied completely rule out the future occurrence of risks.

Aggregate risk management and risk-bearing capacity (ICAAP)

The identification, quantification and oversight of total Bank risk at portfolio level is the responsibility of the Strategic Risk Management Department, and encompasses the identification, measurement, aggregation and analysis of all the risks assumed, assessment of the adequacy of economic capital in relation to the risk profile, and the use and ongoing refinement of appropriate risk management systems.

The minimum capital requirement is calculated using the standardised approach (Pillar 1 of the Basel III regulations). All material risks (counterparty risk, [name] concentration risk, macroeconomic risk, investment risk, interest rate risk in the banking book, credit spread risk and liquidity risk) are actively managed as part of the internal risk management process (Pillar 2 of the internal capital adequacy assessment process [ICAAP] arrangements) and in compliance with the disclosure requirements (Pillar 3 of the Basel regulations).

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

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

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

The HYPO NOE Group's risks and risk coverage capital for the purposes of the economic control loop as at 31 December 2020 and as compared with the previous year are shown below:

Type of risk	Economic risk, 31 Dec. 2020	Economic risk, 31 Dec. 2019
Credit risk	**354,795**	**295,305**
Counterparty risk	283,421	255,695
Foreign exchange risk (customer's perspective)	2,289	2,002
Investment risk	8,872	9,676
Concentration risk	20,151	16,455
Macroeconomic risk	38,988	10,654
Repayment vehicle risk	1,074	823
Market risk	**62,733**	**53,477**
Interest rate risk	24,908	24,384
Credit spread risk	35,763	26,928
Credit valuation adjustment risk	1,365	1,487
Foreign exchange risk (bank's perspective)	47	28
Small trading book risk	650	650
Liquidity risk	**6,900**	**6,500**
Operational risks	**23,119**	**23,263**
Risk buffer	**60,324**	**56,861**
Model risk	22,377	18,912
Reputational risk	8,951	7,565
Other non-quantified risks	28,996	30,384
Total risk	507,870	435,406

Risk coverage capital (RCC)	Allocated to RBC as at 31 Dec. 2020	Allocated to RBC as at 31 Dec. 2019
Economic core capital	691,077	665,873
Undisclosed reserves/liabilities	32,219	28,112
Economic risk-bearing capacity (RBC)	723,296	693,986
Utilisation of econ. RBC	70%	63%

As at 31 December 2020 the Group was utilising 70.2% of its risk-bearing capacity (including an adequate risk buffer) – marginally higher than at 31 December 2019 (62.7%). The presentation of risk and the risk coverage capital as at 31 December 2019 was adjusted ex post in the interests of comparability with the current data.

Management of the internal risk coverage capital

Aggregated banking risk management at the consolidated Group level as defined by the CRR uses IFRS accounting principles to calculate own funds. Meeting the own funds requirements is also a strict condition of ensuring that the Bank remains a going concern. The own funds figures from the Common Reporting Framework (COREP) are thus converted into economic risk-bearing capacity. Undisclosed economic reserves and liabilities arising from securities and equity investments are also included in the risk coverage capital. Changes are driven both by the volatility of the undisclosed reserves and liabilities, and by the resolutions of the Annual General Meeting with respect to dividend distributions, allocations to reserves and any capital increases.

The main components of the HYPO NOE Group's economic risk-bearing capacity are as follows:

- Tier 1 capital, and
- Undisclosed reserves/liabilities arising from securities (AC)

The following components are currently NOT included in the Group's economic coverage capital:

- Subordinated and Tier 2 capital (except for certain predefined stress situations)
- Interim profits and losses for the current financial year

The exclusion of subordinated and Tier 2 capital from the risk coverage capital serves to protect the Group's creditors. In the event of liquidation the interests of subordinated creditors are protected, which represents prudent banking practice.

Recovery plan

Under the *Bundesgesetz über die Sanierung und Abwicklung von Banken* (Federal Act on the Recovery and Resolution of Banks), which came into force on 1 January 2015, the HYPO NOE Group is required to draw up a recovery plan. The embedding of the plan in day-to-day operations pursuant to the Act is integral to the Group's risk and capital management framework.

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

The recovery indicators are an integral part of the reporting within the relevant management bodies.

The 2020 review of the Group's recovery plan under the Federal Act on the Recovery and Resolution of Banks was completed and the approved document submitted to the regulator on schedule. Due to the Covid-19 crisis, this year's update of the recovery plan was restricted to its core elements, and related to the sections on recovery governance (including the escalation process), early warning and recovery indicators, and restructuring measures (including overall restructuring capacity).

Together with the HYPO NOE Group's business model, which is geared towards stability and maintaining earning power over the long term, and dictates that risks can only be assumed on the basis of an overall risk strategy that is in line with the Group's regional roots in Lower Austria, the recovery plan forms an additional key element in the protection of the Group's assets, and those of its business partners and shareholders.

Bank-wide stress test

In place of the regular Bank-wide stress test with fictitious scenarios, an ad hoc Covid-19 stress test geared towards the crisis situation in April 2020 was carried out (reference date: 31 December 2019; three scenarios: base, pessimistic, stress). The impact on the internal risk-bearing capacity (gone concern and going concern), on the regulatory equity ratio, on profit or loss and capital effects, and on free liquidity (adherence to the LCR and TTW target ratios) was simulated. The ad hoc stress test led to the reporting to the Management Board of robust estimates of potential effects on the Bank's key performance indicators prior to material countermeasures, and these were also presented to the Risk Management Committee (RICO) and Risk Committee.

In addition, reverse stress tests are carried out annually, and ad hoc stress tests may also be carried out as required.

Basel III/IV

The main highlight of the reporting year was the preparations for first-time application on 30 June 2021 of the innovations brought about by the regulations collectively entitled CRR II, which will not be subsumed into the regulatory reporting until the release of the final version of the EBA ITS 3.0 at the end of the year. The technical preparations were proceeding at full steam at the turn of the year, and intensive testing will be carried out during the first two quarters of 2021. As regards BCBS 424, which was published towards the end of 2017, and *inter alia* contains a complete revision to the standardised approach to credit risk, the Commission's first draft of the CRR III was originally expected to appear during summer 2020, but during the first half of the year this was put back as a result of the Covid-19 crisis and it was not published until the end of the year.

Upgrading risk management systems

In 2021 the HYPO NOE Group will again refine its infrastructure, processes and methodologies, in order to meet current and future regulatory requirements, and to ensure that internal risk control systems remain compatible with the Group's permitted risk tolerance and its business objectives.

Minimum requirement for own funds and eligible liabilities (MREL)

As a result of the annual update of the MREL, in June 2020 the following minimum requirements were established for the HYPO NOE Group by order of the FMA:

- 5.90% of total liabilities and own funds (31 Dec. 2019: 6.12%); or
- 24.63% of total risk exposure (31 Dec. 2019: 24.59%)
- EUR 759m in MREL-capable liabilities (31 Dec. 2019: EUR 799m)

The minimum requirements established by the regulator are being met with ease as there are sufficient eligible liabilities and own funds.

Credit risk

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

Market risk

General

Market risks are potential losses resulting from adverse changes in the net asset value of exposures due to changes in market prices.

Market risks specific to banking include:

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

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

The main market risks facing the HYPO NOE Group are interest rate risk in the banking book and credit spread risk (particularly in the nostro portfolio), which arise in part from ordinary banking activities such as fixed-interest lending and management of liquidity reserves. The HYPO NOE Group has set up detailed oversight and control processes to address these risks. Due to business strategy considerations, some foreign exchange and option risks (e.g. embedded upper and lower interest rate limits) are also managed. The use of derivatives to hedge interest rate risk can give rise to basis risk, which is likewise closely watched. Risk management procedures and methods have also been put in place to deal with the CVA risk associated with derivatives. The concentration risk inherent in market risk chiefly arises from own investments made to control the liquidity reserve, and is managed and limited together with the latter. The Bank also uses the small trading book trade on its own account.

The HYPO NOE Group has not earmarked any internal risk capital for commodity, share price or fund risk, and consequently no material risks may be incurred in these market risk categories. Sustainability risk is limited and managed, among other measures, by applying inclusion and exclusion criteria.

The HYPO NOE Group's market risk strategy is based on the principles set out below, which are enshrined in the Group's risk strategy. These principles guarantee capital coverage of the market risks incurred at all times, and underpin the related monitoring, control and transparency of the individual market risk positions as follows:

- Identifying and regularly evaluating market risks
- Specifying and regularly reviewing the suitability of models and processes for measuring market risks
- Quantifying market risk on the basis of the processes established
- Determining Management's risk appetite and tolerance with respect to the various individual market risk categories, taking account of risk and reward expectations
- Identifying and implementing legislative and regulatory frameworks
- Appropriately limiting and monitoring market risk on the basis of the specified risk tolerance
- Goal-driven reporting

Interest rate risk in the banking book

When measuring, managing and restricting interest rate risk, the HYPO NOE Group distinguishes between period net interest income risk – which mainly tracks the risk of net interest income fluctuations in a given period – and present value risk, which measures decreases in the asset value of a particular portfolio due to interest-rate-induced changes in present value.

A major objective for the HYPO NOE Group is monitoring and managing the interest rate risk arising from aggregate net interest income at Bank level and sub-portfolios relevant to IFRS earnings and equity, which are prime indicators of performance in the accounts for a given period. At the same time, the present value of the interest rate risk across the entire banking book is managed to ensure conformity with the Bank's total risk-bearing capacity and supervisory requirements (OeNB interest rate risk statistics and identifier for an outlier bank).

The interest rate risks attendant on structured positions and fixed-interest positions in the retail business are largely fully hedged using fair value balance sheet hedges and are recognised in the hedge accounting. Minor exposures are combined and hedged by means of layered hedges (see Note 4.6 Derivatives and hedge accounting). Medium to long-term open positions taken by the Bank in the light of interest rate expectations must reflect the product risk profile, and must concern authorised products and abide by the existing limits. If no appropriate limits have been set for a desired position, the Strategic Risk Management Department and the unit taking the risk jointly arrive at a proposal for a limit and a monitoring process, which must be approved by the Management Board before the transaction is completed.

Interest rate risk management

An independent back office department, Strategic Risk Management, is responsible for monitoring and quantifying interest rate risk. This scrutiny includes watching interest rate gaps and sensitivity analyses. Positions with interest rates fixed for indefinite periods are modelled and regularly assessed on the basis of statistical models and/or expert estimates. Analyses are made for the entire banking book and for sub-portfolios.

The management of intra-year interest rate risk positions is the responsibility of the Treasury/Capital Market/FI Department, while the ALM team handles management of long-term interest rate risk positions. The main objective is to make stable, long-term contributions to net interest income, while also managing the present value of interest rate risk. Fixed and non-linear interest rate risks are normally hedged. The Bank normally aims to prevent any option positions with a significant bearing on IFRS fair value. Because of this, there are strict limits on the use of open option derivatives for interest rate management. Strategic long-term positions in the banking book that are sensitive to interest rates are discussed by the Asset Liability Management Committee at the recommendation of the Asset Liability Management (ALM) team and – subject to approval by the Management Board – managed by the Treasury/Capital Market/FI Department.

Banking book

The present value of interest rate risk across the banking book as a whole is subject to an absolute limit for the purposes of internal risk measurement. This is set during the annual risk budgeting process, on the basis of the Bank's total risk-bearing capacity and risk appetite (risk-bearing capacity accounting), and is in accordance with the limits established by the OeNB interest rate risk statistics. The regulatory identification code used to flag outlier banks, which came into effect on 30 June 2019, is also monitored.

The present value of interest rate risk for all interest-sensitive positions (i.e. excluding non-interest-bearing equity and interest-free investments) is measured for the banking book as a whole, and is limited, monitored and kept to the preordained limits with the assistance of derivatives (mainly interest rate swaps). The basis of the measurement is the effect of a range of interest rate scenarios and shifts on the net asset value.

Risk measurement as required by the OeNB interest rate risk statistics is carried out in accordance with the regulatory requirements.

Internal interest rate risk is assessed in the light of gap analyses and interest rate sensitivities. The worst-case change in present value is calculated for the entire banking book, on the basis of the six EBA scenarios, with the four scenarios subject to the EBA interest rate floor also included without the floor. The ten scenarios are scaled up to a confidence level of 99.9% for the liquidation approach and to 95% for the going concern approach, with a holding period of one year. Parallel shifts and twists in the yield curve (on money and capital markets) are also modelled in the interest rate scenarios. When aggregating the interest rate risks associated with the various currencies, negative present value changes are weighted at 100% and positive present value changes at 50%.

The risk of fluctuations in net interest income is measured by repricing risk. Repricing risk measures movements in net interest income arising from differences in variable reference rates (three-month Euribor, six-month Euribor, etc.) or differences in rate fixing dates where the reference rates are the same. Repricing risk is individually determined for a 12-month period for each currency, scenario, indicator and product. As with internal interest rate risk, the calculation is based on the six EBA scenarios, and the four EBA scenarios without interest rate floors, and a constant balance sheet structure is assumed. It is assumed that new transactions will be concluded to replace expiring positions for the same indicator. For fixed-interest positions, it is assumed that new transactions are concluded at the six-month Euribor rate, as decisions on new fixed-interest positions are taken by ALM on the basis of the market situation and expectations, and not of expiring fixed-interest positions.

Individual portfolios

As is the case for the banking book as a whole, limits are set and monitored in the control system for interest-rate-sensitive portfolios for which measurement effects are recognised in the IFRS statement of comprehensive income. Risk assessment and limit setting are based on present value sensitivities derived from the six EBA scenarios without an interest rate floor, scaled up to a confidence level of 95%.

Current interest risk situation: total banking book

The OeNB statistics show interest rate risk remaining low relative to the regulatory limits (20% of eligible capital). The following table shows the results of the OeNB regulatory interest rate risk statistics, and the performance indicator identifying an outlier bank, as at 31 December 2020 and 31 December 2019.

OeNB regulatory interest rate risk statistics	31 Dec. 2020	31 Dec. 2019
OeNB interest rate risk statistics	4.92%	3.84%
Supervisory outlier test	3.42%	3.46%

The tables below present the interest rate risk positions taken by the HYPO NOE Group as at 31 December 2020 and 31 December 2019.

Interest rate risk positions (assets – liabilities), 31 Dec. 2020, EUR '000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	2,560,719	-738,607	1,822,111
>1-3 months	637,194	-108,956	528,238
>3-6 months	2,024,248	-2,543,010	-518,762
>6 months-1 year	-2,136,975	566,377	-1,570,598
>1 year-2 years	-635,050	640,679	5,629
>2-3 years	-930,177	1,139,195	209,018
>3-4 years	-523,932	477,224	-46,708
>4-5 years	-444,479	441,430	-3,049
>5-7 years	-674,893	420,706	-254,187
>7-10 years	400,794	-124,880	275,914
>10-15 years	159,130	-22,410	136,719
>15-20 years	320,484	-274,346	46,137
Over 20 years	18,657	1,167	19,823

Interest rate risk positions (assets – liabilities), 31 Dec. 2019, EUR '000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	1,369,988	-808,071	561,917
>1-3 months	1,013,418	-1,161,899	-148,481
>3-6 months	1,569,949	-2,237,683	-667,734
>6 months-1 year	-517,685	1,277,650	759,965
>1 year-2 years	-601,250	653,211	51,961
>2-3 years	-601,486	500,407	-101,079
>3-4 years	-964,581	992,917	28,336
>4-5 years	-108,844	101,099	-7,746
>5-7 years	-872,070	703,769	-168,301
>7-10 years	82,046	72,912	154,959
>10-15 years	66,202	-3,265	62,937
>15-20 years	317,523	-300,495	17,029
Over 20 years	17,782	897	18,679

As at 31 December 2020, risk utilisation was 45% of the total limit of EUR 55m (2019: 49% of the total limit of EUR 50m). The tables below show the results of the various interest rate scenarios for the HYPO NOE Group, and how they are reflected in the internal limits, as at 31 December 2020 and 31 December 2019. For the internal risk measurement process, the six EBA scenarios with an interest rate floor and the four without a floor are applied and scaled up to a confidence level of 99.9%.

Internal interest rate scenario analysis, total banking book, 31 Dec. 2020, EUR '000	Change in present value	Scaled up to 99.9%
Scenario I: EBA parallel up	-10,572	-11,629
Scenario II: EBA parallel down	2,093	2,302
Scenario III: EBA steepener	-22,644	-24,908
Scenario IV: EBA flattener	13,283	14,612
Scenario V: EBA short rate up	13,254	14,579
Scenario VI: EBA short rate down	1,240	1,363
Scenario VII: EBA parallel down without interest rate floor	64,007	70,408
Scenario VIII: EBA steepener without interest rate floor	18,345	20,180
Scenario IX: EBA flattener without interest rate floor	23,932	26,325
Scenario X: EBA short rate down without interest rate floor	-9,221	-10,143
Internal risk	-22,644	-24,908
Warning level (95% of limit)	-52,250	
Limit/utilisation (%)	-55,000	45.29%

Internal interest rate scenario analysis, total banking book, 31 Dec. 2019, EUR '000	Change in present value	Scaled up to 99.9%
Scenario I: EBA parallel up	-22,167	-24,384
Scenario II: EBA parallel down	15,504	11,032
Scenario III: EBA steepener	-7,621	-8,131
Scenario IV: EBA flattener	13,874	7,172
Scenario V: EBA short rate up	751	-826
Scenario VI: EBA short rate down	3,165	3,117
Scenario VII: EBA parallel down without interest rate floor	95,542	60,122
Scenario VIII: EBA steepener without interest rate floor	50,829	28,303
Scenario IX: EBA flattener without interest rate floor	21,874	11,005
Scenario X: EBA short rate down without interest rate floor	9,711	5,949
Internal risk	-22,167	-24,384
Warning level (95% of limit)	-47,500	
Limit/utilisation (%)	-50,000	48.77%

Credit spread risk

Credit spread risk is the impact of adverse changes in risk premiums on securities, and of the related loss of net asset value. This type of risk plays a particularly important role in connection with the Group's own investments. The capital requirements resulting from credit spread risk are determined using a historical value-at-risk (VaR) model (historical distribution assumption) for the entire nostro portfolio in the banking book, and for the securities portfolio in the small trading book. VaR is calculated on the basis of historical credit spread scenarios, which are estimated with the aid of IBoxx indices. The changes arrived at in this way are then aggregated, and this distribution of losses is used to calculate a loss quantile (99.9% and 95%). The historical simulation methodology uses a five-year rolling time window. This indicator measures the potential loss in value from widening spreads that would be realised, from a liquidation perspective, if the entire securities portfolio were disposed of. The table below shows the results of the credit spread VaR analysis for the HYPO NOE Group as at 31 December 2020 and 31 December 2019, assuming a holding period of one year and a confidence level of 99.9%.

Credit spread, VaR (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2020	31 Dec. 2019
Nostro portfolio, total	-35,763	-26,928

Due to the sharp increase in the volatility of the CDS level used in the model during the Covid-19 pandemic, the limit was increased in May. There were no other significant changes in the methods used to measure and monitor credit spread risk during the reporting period.

Foreign exchange risk

The HYPO NOE Group's conservative risk policies are reflected in the strict limits on open foreign exchange positions. Refinancing in the same currency and the use of FX derivatives means that foreign exchange risks are effectively eliminated for the Group. Consequently, under the Capital Requirements Regulation, as at 31 December 2020 the Group was not subject to the minimum capital requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign exchange positions is below this figure.

The residual foreign exchange risk for all open currency positions is regularly measured and monitored, using a VaR model based on foreign currency fluctuations over time. Correlations between the various currencies are taken into consideration (variance/covariance approach). More recent developments in the time series are weighted more heavily than those further back in the past, with a decay factor of 0.94. The table below shows the results of the currency-position VaR analysis for the HYPO NOE Group as at 31 December 2020 and 31 December 2019, assuming a holding period of one year and with a confidence level of 99.9%.

Currency positions, VaR (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2020	31 Dec. 2019
Currency risk exposure, total	-47	-28

There were no significant changes in the methods used to measure and monitor foreign exchange risk during the reporting period.

Option risk

Volatility risks in the HYPO NOE Group chiefly arise from upper and lower interest rate limits on loans and deposits. The management and oversight of these positions forms part of the management of interest rate risk on the banking book.

The Bank normally aims to prohibit any option positions with a significant bearing on IFRS fair value. Option derivatives are only employed to a very limited extent, to manage interest rate risk and to optimise the mismatch contribution. Limits are imposed by implementing fair value interest rate risk limits.

Trading book risk

The Group does not engage in any business that requires it to maintain a large trading book as defined by the CRR. It maintains a small trading book in accordance with Article 94 CRR, and the volume of business is accordingly limited, in line with that Article. In addition, sensitivity limits and a maximum loss limit have been set (31 Dec. 2020: EUR 650thsd; 31 Dec. 2019: EUR 650thsd), including an early warning indicator (31 Dec. 2020: EUR 300thsd; 31 Dec. 2019: 300thsd) that halves the sensitivity limit when it is triggered. Daily observation is performed by the Strategic Risk Management Department. No positions were taken up in the small trading book in 2020.

Basis risk

Information on basis risks can be found in Note 4.6 Derivatives and hedge accounting.

CVA/DVA risk

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

CDS curves). Global CDS curves are applied (according to rating and sector). The effects of the CVA and DVA are recognised in the consolidated statement of comprehensive income.

CVA risk relates to decreases in present value as a result of fluctuations in the CVAs for OTC derivatives with CVA adjustments, which can in turn lead to fluctuations in the "Net measurement gains or losses" item in the statement of profit or loss. CVA risk is measured and monitored on a monthly basis. As part of the Bank-wide economic banking risk observation, swings in the CVAs of relevant positions over time are measured and included as risks in the calculation of risk-bearing capacity. The daily movements in global CDS curves are the basis for measuring these fluctuations. Risk measurement uses a historic value-at-risk approach, with a holding period of one year and a monitored time series of five years. All derivatives without collateral agreements are included in measurement. The HYPO NOE Group mainly concludes derivative contracts via central clearing houses or collateralises them by means of a credit support annex (CSA) in order to reduce credit risk and CVA volatility risk.

On-balance-sheet market risk: sensitivity analysis

Market risk sensitivities in respect of comprehensive income and of equity are presented below. All sensitivities are presented using a VaR approach (95% confidence level, holding period of one year) as described above for the various types of risk. Repricing risk shows the impact on net interest income.

IFRS fair value sensitivities, 31 Dec. 2020, EUR '000	Profit/loss sensitivities			OCI sensitivities		
	VaR	Limit	Utilisation	VaR	Limit	Utilisation
Present value interest rate risk	-1,611	7,000	23%	-1,271	5,000	25%
Credit spread risk	-4,693	12,000	39%	-3,705	15,000	25%
CVA risk	-612					
FX basis risk	-1,429	5,000	29%		5,000	
Banking book risk	-8,344			-4,977		
Trading book interest rate risk	-					

IFRS fair value sensitivities, 31 Dec. 2019, EUR '000	Profit/loss sensitivities			OCI sensitivities		
	VaR	Limit	Utilisation	VaR	Limit	Utilisation
Present value interest rate risk	-1,947	10,000	19%	-1,631	5,000	33%
Credit spread risk	-5,985	15,000	40%	-4,463	15,000	30%
CVA risk	-828					
FX basis risk	-2,336	9,000	26%	-162	1,000	16%
Banking book risk	-11,096			-6,256		
Trading book interest rate risk	-					

Interest income sensitivities, EUR '000	31 Dec. 2020	31 Dec. 2019
Scenario I: EBA parallel up	32,843	12,944
Scenario II: EBA parallel down	3,262	15,851
Scenario III: EBA steepener	3,020	15,679
Scenario IV: EBA flattener	27,407	11,374
Scenario V: EBA short rate up	40,005	15,494
Scenario VI: EBA short rate down	3,257	15,368
Scenario VII: EBA parallel down without interest rate floor	21,286	54,320
Scenario VIII: EBA steepener without interest rate floor	10,772	33,847
Scenario IX: EBA flattener without interest rate floor	28,613	10,577
Scenario X: EBA short rate down without interest rate floor	19,614	56,132
Worst case scenario	3,020	10,577

Estimation uncertainty and judgments

The risk measurement methods used meet the legal and economic requirements, and are also internally validated. All risk measurement methods have their limits, and higher losses than those shown by the risk measurements cannot be ruled out. The amounts shown are not forecasts or indications of how these amounts may behave in the future. The main limitations of the methods used are discussed below.

The following factors need to be borne in mind when employing sensitivity analyses like those used to determine risk:

- The scenarios may not be good indicators of future events, especially where these represent extremely positive or extremely negative situations. In such cases, the scenarios could lead to risks being underestimated or overstated.
- The assumptions about changes in the risk factors and the relationships between them (e.g. simultaneous twists in the euro and Swiss franc yield curves) may turn out to be false, particularly if extreme market developments occur. There is no standard methodology for devising interest rate scenarios, and applying other scenarios would generate different results.
- The scenarios applied do not provide any indications of the potential losses in situations not modelled by them.

In the case of the value-at-risk techniques applied, the following drawbacks of the methodology are among those that should be borne in mind:

- The value at risk stated for a given confidence level says nothing about the potential loss beyond the assumed confidence level.
- The model used takes account of historical data within the stated five-year time series. The choice of a different period would alter the results.
- The correlations derived from the time series and the risk distribution may change in future.

Besides the risk determination methods described, stress tests are performed in order to reveal risks present beyond the regular risk measurement schedule.

Liquidity risk

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

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

The table below shows a maturity analysis of the Group's non-derivative financial liabilities, including existing financial guarantees extended for derivative financial liabilities and outstanding irrevocable loan commitments as at 31 December 2020 and 31 December 2019. The presentation is based on the following assumptions:

- Undiscounted contractual cash flows (including payments of principal and interest) are shown
- In the case of liabilities with variable cash flows, the future cash flows are calculated on the basis of forward rates
- Liabilities are reported at the earliest possible date they can be called in by the counterparty (sight deposits and savings deposits are therefore shown in the earliest maturity band, regardless of their actual maturities)
- Financial guarantees are assigned to the earliest maturity band
- Finance lease obligations are included at the expected payment dates
- Outstanding irrevocable loan commitments are included at the earliest possible drawing date
- Liabilities arising from derivative transactions based on master agreements do not include any netting agreements
- Cash flows from interest rate derivatives are included on a net basis
- Gross values are shown for repayments of obligations arising from foreign exchange derivatives and forwards
- In the interests of consistency, the liabilities are presented in accordance with the IFRS balance sheet format; the key items from a liquidity perspective are also listed by internal categories

Financial liabilities: maturity analysis, 31 December 2020, EUR '000

Liabilities	(Notes)/internal liquidity categories	0-1 months	1-3 months	3-12 months	1-5 years
Financial liabilities – HFT	**4.4**	**7,623**	**177,472**	**42,488**	**513,535**
	Derivative liabilities	7,623	177,472	42,488	513,535
Financial liabilities – AC	**4.4**	**2,845,100**	**301,525**	**1,759,407**	**6,966,325**
	OeNB tenders/GC Pooling repos	-	-	-	1,849,000
	Interbank fixed-term deposits	4,987	63,585	59,881	-
	Liabilities arising from collateral received for derivatives	75,747	-	-	-
	Customer deposits	2,711,009	164,327	945,466	188,208
	Unsecured own issues	29,820	64,734	84,477	2,358,464
	Secured own issues	23,537	8,880	669,584	2,570,653
Financial liabilities – FVO	**4.4**	**-**	**-**	**-**	**-**
Contingent liabilities		**1,078,697**	**-**	**-**	**-**
	Financial guarantees	128,231	-	-	-
	Loan commitments	950,466	-	-	-
Other items affecting liquidity		**9,418**	**27,000**	**87,000**	**300,000**
	Finance lease obligations	9,418	27,000	87,000	300,000

Financial liabilities: maturity analysis, 31 December 2019, EUR '000

Liabilities	(Notes)/internal liquidity categories	0-1 months	1-3 months	3-12 months	1-5 years
Financial liabilities - HFT	**4.4**	**101,466**	**52,770**	**72,732**	**206,963**
	Derivative liabilities	101,466	52,770	72,732	206,963
Financial liabilities - AC	**4.4**	**2,446,440**	**193,067**	**2,553,121**	**4,258,174**
	OeNB tenders/GC Pooling repos	50,000	-	-	148,988
	Interbank fixed-term deposits	9,989	8,694	201,131	-
	Liabilities arising from collateral received for derivatives	86,015	-	-	-
	Customer deposits	2,277,420	152,978	998,985	218,529
	Unsecured own issues	9,483	6,859	265,610	1,765,696
	Secured own issues	13,533	24,536	1,087,395	2,124,961
Financial liabilities - FVO	**4.4**	**-**	**-**	**-**	**-**
Contingent liabilities		**1,285,413**	**-**	**-**	**-**
	Financial guarantees	143,924	-	-	-
	Loan commitments	1,141,489	-	-	-
Other items affecting liquidity		**7,000**	**20,000**	**48,665**	**105,587**
	Finance lease obligations	7,000	20,000	48,665	105,587

A considerable part of the derivative liabilities are secured by cash collateral, or arise from the inclusion of gross values for foreign exchange derivatives and forwards. As a result, actual net liquidity outflows are lower than those shown in the maturity analysis. In connection with derivatives being cleared or with CSAs, the general risk of remargining is taken into account in the calculation of the time to wall, which is considered in the internal operational liquidity stress tests. This is based on the largest net change in the daily balance figures over the past two years, and an interest rate floor of 0% for the ten-year euro swap rate including a buffer. The worst-case liquidity outflow resulting from remargining of derivatives with CSAs for the years to 31 December 2020 and to 31 December 2019, expressed in EUR thsd, is shown in the table below.

31 Dec. 2020	31 Dec. 2019
175,245	175,245

Irrevocable loan commitments include unused credit lines and loan facilities, as well as revolving credit lines (e.g. overdraft facilities and cash advances) where there is a strong likelihood that the unutilised loans will be drawn on within the contractually agreed period. In contrast, credit lines can be used at any time, implying a greater degree of uncertainty with regard to utilisation and the maturity date. Public sector customers with which there are close relationships account for a significant proportion of the unused credit lines. Planned use by the customer is regularly coordinated with the front office units concerned. This in turn facilitates forward planning of the Bank's refinancing requirements.

The Group's main sources of finance are secured and unsecured issues, as well as deposits from retail, SME and institutional customers. OeNB tenders and GC Pooling repos are used for fine-tuning management of the liquidity position.

The concentration of deposits from individual retail customers is usually low in volume terms, so the Bank faces no significant concentration risk in this segment. By contrast, customer concentrations are possible in the case of institutional customers, some of which are in a position to make large investments. The Bank normally seeks to include different and longer-term maturity bands in the mix by offering appropriate products. In liquidity risk management, the risk that institutional customer deposits will not be extended on maturity is taken into account in the internal operational liquidity stress tests used to determine time to wall on a scenario basis in the light of experience of past crises.

The ten largest fixed-term deposits made by institutional customers for the year to 31 December 2020 and the year to 31 December 2019 were as follows (EUR thsd):

	31 Dec. 2020	31 Dec. 2019
1	130,000	175,000
2	125,000	172,000
3	100,000	115,000
4	90,000	81,000
5	82,000	80,000
6	80,000	79,990
7	50,000	60,000
8	50,000	55,000
9	49,450	39,625
10	35,000	25,000

The HYPO NOE Group seeks to achieve a balanced refinancing mix. Collateralised and uncollateralised bond issues are currently a fixture in the refinancing structure, and will remain so in future. Unlike the other deposit-taking business, issuance allows the Bank to access long-term refinancing and offset the maturity transformation risk that results from long-term lending. Care is taken to avoid concentrations in the maturity profile of issued debt.

The secured capital market accounts for a substantial portion of the Group's total refinancing, and will continue to do so in future. It exhibits a high degree of stability even at times of crisis. Another major advantage is the fact that the free collateral in the cover pools can be converted into assets eligible as collateral for OeNB tenders and thus used to provide liquidity in a crisis.

Fixed-term interbank deposits are another, albeit less important source of refinancing. The table below shows the seven largest depositors (EUR thsd).

	31 Dec. 2020	31 Dec. 2019
1	25,000	134,000
2	25,000	32,500
3	20,000	30,000
4	20,000	13,700
5	15,000	10,000
6	13,700	-
7	10,000	-

The HYPO NOE Group's primary instruments for managing and covering short-term maturities are its available liquidity reserve, cash reserves and overnight investments. The Group makes a distinction between high-quality, highly liquid assets (HQLA) and other ECB or GC Pooling repoable collateral. Strategic liquidity is mainly generated by means of OeNB tenders and GC Pooling repos. As a result of participation in the European Central Bank's TLTRO III programme, a large part of the liquidity reserve has been converted into demand deposits at the OeNB. In order to provide a comparison with the previous year, cash deposited with the central bank, less the minimum reserve requirement, as at

31 December 2019 was included in the available liquidity reserve. The breakdown of the available liquidity reserve as at 31 December 2020 and 31 December 2019 was as follows:

Available liquidity reserve, 31 Dec. 2020, EUR m	T0	1M	3M	12M
HQLA	336	293	240	183
Other collateral eligible for ECB tenders or GC Pooling repos	1,275	1,219	1,209	1,368
Cash at central bank	1,404	-	-	-

Available liquidity reserve, 31 Dec. 2019, EUR m	T0	1M	3M	12M
HQLA	1,054	1,054	1,039	979
Other collateral eligible for ECB tenders or GC Pooling repos	1,089	1,076	1,043	1,511
Cash at central bank	175	-	-	-

The analysis of the available liquidity reserve does not include collateral already utilised as at the end of the reporting period. This means that once the liabilities secured with such collateral have matured, there could be an increase in the portfolios included in the maturity profile.

By definition, the focus of investments made from the liquidity reserve is restricted to HQLA, OeNB tenders and GC Pooling repoable collateral. As domestic investments are given priority, the concentration is mainly in low-risk Austrian government bonds.

If the refinancing options are not sufficient to cover financial liabilities, the Bank's existing emergency processes and measures are triggered. The Bank's internal liquidity risk management processes require the latter's activation well before the actual occurrence of a situation that could pose a threat to its survival.

Details of the individual components of the Group's comprehensive liquidity risk management framework and their interaction are described below. The framework takes account of all of the mainstays of liquidity risk management. These include: preparing and implementing a refinancing and risk strategy adapted to the business model and risk appetite; employing and regularly reviewing suitable methods and processes to determine, measure, oversee and control liquidity risk; and ensuring that effective escalation processes and contingency plans are in place.

Liquidity risk management targets

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

This gives rise to the following fundamental objectives of the Group's liquidity risk management:

- Maintaining a sufficient liquidity buffer, based on suitable stress tests and limit systems, to maintain solvency at all times
- Optimising the refinancing structure with respect to risk tolerance, maturity transformation and costs
- Comprehensive planning of the medium-to-long-term refinancing strategy
- Coordinating issuance on the money and capital markets
- Pricing in line with risks and costs
- Conforming to statutory regulations and market conditions

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

- Identifying and regularly evaluating liquidity risks
- Determining and regularly reviewing the suitability of models and processes for measuring identified liquidity risks
- Quantifying liquidity risk on the basis of the established processes
- Identifying and implementing legislative and regulatory frameworks
- Establishing management's risk appetite/tolerance
- Maintaining an appropriate liquidity buffer at all times
- Reasonably limiting and monitoring liquidity risks on the basis of the specified risk tolerance
- Goal-driven reporting

- Maintaining emergency plans and processes, and reviewing them regularly to ensure that they are up to date and appropriate
- Managing operational liquidity in a timely and efficient manner
- Approving and monitoring the implementation of the medium-to-long-term refinancing strategy
- Employing processes and procedures aimed at the risk-reflective allocation of liquidity costs

Implementation of liquidity risk management

Day-to-day liquidity requirements are monitored and managed on the basis of daily reports prepared by the Strategic Risk Management Department.

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

In preparing the liquidity cash flow forecast and the various liquidity scenarios, all on- and off-balance-sheet items (including contingent liabilities) affecting liquidity are taken into account. With regard to business that affects liquidity, the presentation of the liquidity cash flows distinguishes between a deterministic and a stochastic approach. For the positions given stochastic treatment, fictional maturity scenarios drawn from statistical models, benchmarks and/or expert valuations for given scenarios are extrapolated in order to arrive at the expected capital commitment.

In addition to existing business, assumptions about expected new business and prolongations are made for each scenario. Prolongations represent the extension of due positions arising from existing business relationships, whereas new business consists of new business from new or existing customers.

The HYPO NOE Group's operational liquidity capacity is evaluated and monitored on a monthly basis, in terms of the length of time that the Bank would be able to survive ("time to wall"). The net cash outflows in the normal scenario and the three stress scenarios are compared with the relevant available liquidity reserve, and the point in time when the liquidity reserve will no longer be sufficient to cover the net cash outflows is calculated. The shortest "time to wall" is used to calculate limit utilisation. When determining the survival period in the stress scenarios, the fundamental assumption is made that no significant changes in the business model or risk strategy have as yet been initiated in order to reduce illiquidity. The limit leaves room for standard escalation processes to be triggered as required to react quickly to potential liquidity shortages and initiate appropriate action in good time. The stress test horizon is one year. The basic assumptions behind the various stress scenarios are, put briefly, as follows:

- For the **bank name crisis** stress scenario, a deterioration in the HYPO NOE Group's individual liquidity situation is simulated. Other market participants are not initially affected by the crisis, but react indirectly, for example by withdrawing their deposits from the Bank. At the same time, the Group's refinancing options in the money and capital markets are severely constrained or non-existent.

- In the **market crisis** scenario, an overall deterioration in the liquidity of the money and capital markets is assumed, and access to money and capital market refinancing is taken to be generally restricted. In addition, the available liquidity reserve can be expected to fall in value as a result of declining market prices, as market participants' risk aversion increases. The effects on customer deposits are assumed to be smaller than in a name crisis and, as the Group is owned by the State of Lower Austria, may be seen as entirely positive, given that customers have an increased need for security in a crisis.

- The **combined crisis** scenario links a bank name crisis with a market crisis. It should be noted that in such a crisis the stress factors of the two components are not simply added: special parameters come into play. Refinancing in the money or capital markets is hardly possible at all in such a crisis. The liquidity buffer shrinks as market prices fall, and customer deposits increasingly drain away – albeit less than in a name crisis, since other market participants are also affected.

- A normal scenario is also simulated. This depicts routine business developments, as well as customary fluctuations in deposits, and withdrawals attributable to contingent liabilities. It is therefore referred to as the volatility scenario.

With a limit of eight weeks (or 12 weeks in the case of an early warning), the HYPO NOE Group's time to wall as at 31 December 2020 was a very robust 52 weeks (31 Dec. 2019: 39 weeks). Alongside time to wall, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is reported on a monthly basis and is integral to the Group's operational liquidity management and the planning processes. The LCR reported to the regulator was 200% as at 31 December 2020 (31 Dec. 2019: 157%). In 2020 the regulatory limit was 100%, and the internal limit 120%. There are also maturity-related volume limits designed to control unsecured bank money-market exposures. The 30-day limit of EUR 500m, 90-day limit of EUR 800m and up-to-one-year limit of EUR 1bn were adhered to throughout the monitoring period in 2020.

For structural liquidity risk, the period and cumulative liquidity gaps are presented in one-year maturity bands; here, the focus is mainly on contractual cash flows generated by existing business. Modelled cash flows only play a minor role, and new business and prolongations also play a part.

The HYPO NOE Group uses economic capital as a major metric for structural liquidity risk. Economic capital measures the maximum possible net interest loss that can be absorbed in the course of one year. To calculate the economic capital implied by liquidity risk, higher costs are applied, due to the potentially higher refinancing spreads over one year. On the basis of the historical funding costs of each major funding instrument, the maximum expected increase in refinancing costs over the period of one year is calculated and monitored with a given confidence level. The economic capital for a limit of EUR 15m was EUR 6.9m as at 31 December 2020 (31 Dec. 2019: EUR 6.5m for a limit of EUR 10m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn, and the structural funding ratio (SFR), a recovery indicator, is also applied. The SFR is an indicator of maturity transformation risk. It is calculated as the ratio of the current one-year liquidity gap, including the available liquidity reserve, to a predefined portion of the deposits. As at 31 December 2020, the SFR was significantly higher than the internal early warning threshold of 125%, at 506% (31 Dec. 2019: 391%).

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

Contingency plan

The liquidity contingency plan (emergency plan) is designed to maintain effective liquidity management even in a market crisis. The Group's plan defines the responsibilities in an emergency, the composition of the crisis management teams, the internal and external communication channels, and the action to be taken where necessary. In an emergency, a crisis management team takes control of liquidity management and decides on the measures to be taken on a case-by-case basis. The contingency plan comprises a package of measures useful in overcoming a liquidity crisis; these were identified, analysed in detail and documented in a multi-stage selection process. The feasibility and suitability of each of the emergency measures in a variety of basic types of stress scenario were evaluated, the quantitative and qualitative effects computed, and the individual steps in the implementation process determined.

Current liquidity risk situation

The HYPO NOE Group is in a strong position in terms of its refinancing options, and draws its liquidity not just from conventional capital market transactions and deposits, as well as standard repo transactions, but also from ECB tenders. The Group is also increasingly using its close relationships with development banks as a source of refinancing. Customer deposits are a mainstay of the refinancing mix, which demonstrates the Group's standing as a valued partner to institutional investors. In spite of the current crisis, savings deposits remained close to the level recorded at year-end 2019. Current account deposits rose significantly in the course of the year. Time deposits were sometimes scaled back in favour of a cost-effective refinancing mix. Use of time deposits was stepped up towards the end of 2020, and is now well above the previous year's level. This diversified refinancing portfolio is supplemented by sufficient marketable securities.

The HYPO NOE Group is regarded as a sound partner on the international capital markets. The planned benchmark issues were successfully launched. A EUR 500m mortgage covered bond issue was floated in mid-May 2020. In mid-June the HYPO NOE Group placed its first green bond – a EUR 500m senior preferred benchmark bond. This was the first green bond to be certified in accordance with Austria's UZ 49 standard for sustainable financial products.

In response to the Covid-19 pandemic, the European Central Bank launched its TLTRO III programme, which the HYPO NOE Group subscribed to – a step that further enhanced the Bank's crisis-proof reputation.

As an early warning indicator of potential overshoot of liquidity risk indicators in the course of the Covid-19 pandemic, the effects of stress scenarios on the Group's liquidity situation were also simulated by means of an ad hoc stress test.

During the reporting period, the regulatory indicators of liquidity risk were tracked in accordance with the published standards and reported to the Austrian regulator. Where applicable, the minimum regulatory requirements were adhered to without difficulty despite the Covid-19 crisis. In future, compliance with the statutory regulations will be assured by their integration with the internal liquidity risk management arrangements and planning processes, as well as strict internal standards and operational control processes already in place. The HYPO NOE Group is steadily refining its liquidity risk management system, principally by incorporating the results of model and parameter validations, stress tests and emergency simulations.

During the year just ended, procedural and technical refinements were made to the liquidity risk reporting system, and the report preparation process was improved.

Operational risk

Operational risk is the danger of losses arising directly or indirectly from the inadequacy or failure of internal processes or systems, human error or external events. In each category of operational risk, legal risks can result in losses. This is because in every category the HYPO NOE Group can be exposed to claims or legal proceedings arising from alleged breaches of contractual, statutory or regulatory requirements. Information and communication technology (ICT) risk and reputational risk (which is treated as a separate category) are closely related to operational risk. However, business risks do not form part of it.

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

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

There is also an emphasis on continuously improving the effectiveness and efficiency of operational risk management processes. The operation and continuous improvement of an effective internal control system (ICS) is aimed at reducing the likelihood of operational risk events and minimising their impact. Risks are systematically identified and assessed, controls agreed and developed, and where necessary key processes adapted.

Current operational risk situation

Detailed information on operational risk events in the year under review was systematically collected in a central database. Improvements are seen as crucial to controlling operational risk: they were painstakingly formulated and implemented whenever operational risk events and near-miss incidents occurred.

A stand-alone crisis team has been managing the measures taken in response to the Covid-19 pandemic since March 2020, and has introduced the following arrangements, among others: floor separation at two bank sites (HYPO NOE headquarters and the branch in Vienna's Wipplingerstrasse); ongoing information for employees; widespread home office working; installation of Plexiglas partitions at branches; and use of "split teams" (division of employees into teams with alternating presence requirements) at the strategically important units. Reporting to the Management Board was implemented. Due to the measures taken, there were no confirmed infections on Bank premises and operations continued without interruption. Operational losses due to the Covid-19 pandemic, which have so far been insignificant, are being recorded in accordance with the EBA Guidelines of July 2020.

The early warning and key risk indicators have delivered satisfactory outcomes.

The ICS was updated in the course of the annual review. Consideration of the implications of heavy reliance on home office working due to Covid-19 was partly included.

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

Due to the Group's digitalisation efforts, ICT risk has become a major issue. It is addressed by means of close cooperation between the Organisation & IT and Strategic Risk Management departments. The initial project aimed at fulfilling the requirements of the EBA and FMA ICT risk guidelines was completed on time at the end of 2020 with the implementation of a governance framework including the first operational steps.

Reputational risk

The HYPO NOE Group attaches great importance to limiting and managing reputational risk, and it is therefore treated as a separate risk category. Great care is taken to avoid potential harm to the reputation of the HYPO NOE Group when taking business decisions, and a process for evaluating reputational risk is in place.

Reputational risk is the danger of direct or indirect damage to the Group's reputation, and the opportunity costs that this would entail. Such damage can compromise the Group's standing and undermine the trust of its stakeholders, including customers, investors, employees, business partners and the community. The reasons may reflect a failure to live up to their expectations.

In the Group's view, the means of meeting those expectations lies in effective business processes, coupled with sound risk monitoring and management. The Group's code of conduct outlines the common values and principles shared by HYPO NOE Group employees. The HYPO NOE Group also avoids business policies and transactions associated with particular legal or tax risks, or with substantial environmental risks. The Group's lending is subject to clear ethical guidelines and business principles, geared towards strict conformity with a holistic environmental and social sustainability approach. In this way the Bank ensures that loans are only extended for purposes that are compatible with its philosophy and sustainability strategy. The ethics guidelines and business principles comprise inclusion and exclusion criteria, and are the basis for initiating new business across the Group. These criteria are also explicitly referred to by a "reputational risk questionnaire" that forms part of the loan application and is a compulsory filter.

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

Other risks

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

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

The Group identifies and monitors such potential risks, and uses equity to hedge them, taking negative changes into account at an early stage.

Sustainability risks

In line with the recommendations of the FMA Guide for Handling Sustainability Risks, when drawing up its risk inventory the HYPO NOE Group has incorporated sustainability risks into the existing main risk categories of its risk map as sub-categories (effect on existing types of risk). The risk manuals and strategies are being revised accordingly.

As suggested by the FMA guide, new methods and tools adopted were a "heat map" to classify the climate risk involved in the loans extended, as well as clear exclusion and inclusion criteria for lending policies. In addition, negative effects of extreme weather events are analysed as part of the annual Bank-wide stress test. There are also ongoing interbank information exchanges between members of the Allgemeines Rechenzentrum (ARZ) computer centre, aimed at creating synergies by boosting efficiency and minimising costs through joint implementation of software in the core banking system.

Over the next two years the potential sustainability risks within the individual risk categories will be thoroughly reviewed. To this end, a central contact person and coordinator has been appointed in the Strategic Risk Management Department. The results of this evaluation will subsequently be reflected in the Group's strategic risk objectives and its operational business and risk management processes.

Risk buffer

To deal with unquantified risks which the risk inventory has determined should be given equity cover when the risk-bearing capacity is computed, the Group maintains a risk buffer which is calculated on the basis of the quantified risks. The risk buffer is treated as an exposure class forming part of the Bank's aggregate risk in the total risk-bearing capacity calculation, and is broken down into model risk, reputational risk and other non-quantified risks. The more sophisticated and accurate risk measurement processes are, and the smaller the share of the non-quantified risks they include, the smaller the capital buffer can be.

Latent legal risks

It is standard practice to recognise provisions for litigation in which the outcome or any potential losses can be reliably predicted. In such cases, the provisions are recognised at a level deemed appropriate in the circumstances, in accordance with the applicable accounting principles.

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

EUR '000	31 Dec. 2020	31 Dec. 2019
Unutilised facilities	1,751,709	1,746,356

9 NOTES TO THE STATEMENT OF CASH FLOWS

Significant accounting policies

At the HYPO NOE Group, the cash flows reported in the consolidated statement of cash flows in accordance with IAS 7 are presented using the indirect method. "Cash flows from investing activities" and "Cash flows from financing activities" are calculated using the direct method.

"Cash flows from **operating activities"** mainly relate to cash inflows and outflows from "Financial assets – AC", "Financial assets – mandatorily FVTPL", "Financial assets – FVOCI" and "Financial liabilities – AC".

When reconciling the profit for the year before non-controlling interests, non-cash items are removed; these comprise depreciation and amortisation, impairment and write-ups of property, plant and equipment, intangible assets and investment property, allocations to and reversals of provisions and risk provisions, as well as net measurement gains or losses on financial assets and liabilities.

The HYPO NOE Group's interest income and interest expense are eliminated from "Profit for the year" by means of the "Adjustments for interest income and expense" item; the amounts for interest income and interest expense are replaced by the actual interest paid and received, which are recognised under "Cash flows from operating activities".

"Cash flows from **investing activities**" largely concern cash inflows and outflows from investments in and disposals of property, plant and equipment, and investment property.

"Cash flows from **financing activities**" are made up of dividends paid to owners of the parent and repayments of lease liabilities, in accordance with paragraph 50a IFRS 16.

"**Cash and cash equivalents**" consists of cash on hand, demand deposits, and balances at central banks repayable on demand. This item corresponds to "Cash and balances at central banks" in the statement of financial position.

The following table shows changes in liabilities arising from financing activities.

EUR '000	1 Jan. 2020	Cash	Non-cash	31 Dec. 2020
Subordinated liabilities	1,453	-	-1,453	-
Liabilities arising from financing activities	**1,453**	**-**	**-1,453**	**-**

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

Further information on "Subordinated liabilities" can be found under Note 4.4.1 Subordinated capital.

10 GROUP STRUCTURE AND RELATED-PARTY RELATIONSHIPS

10.1 Scope of consolidation

The scope of consolidation of the HYPO NOE Group includes all subsidiaries that are directly or indirectly controlled by the parent and are material to the presentation of the Group's assets, finances and earnings. The scope of consolidation is reviewed on an ongoing basis. Besides the parent, HYPO NOE Landesbank für Niederösterreich und Wien AG, the Group comprises 60 Austrian subsidiaries in which the parent meets the criteria for control as specified in IFRS 10. Last year, 63 Austrian subsidiaries were included in consolidation apart from the parent. 11 companies are accounted for using the equity method (31 Dec. 2019: 11).

Significant accounting policies

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

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

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

Changes in 2020

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

The previously consolidated company HYPO NOE Real Consult GmbH was sold on 6 November 2020 upon entry of the transaction in the register of companies. An interest of 49% was acquired by EWU Wohnbau Unternehmensbeteiligungs-GmbH, which is accounted for using the equity method, and its subsidiaries Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H. and Gebau-Niobau Gemeinnützige Baugesellschaft m.b.H. each acquired a 17% interest. HYPO NOE Real Consult GmbH was renamed VIVITimmo GmbH on 18 November 2020 upon entry of the change in the register of companies.

10.2 Consolidated subsidiaries

The following consolidated, directly or indirectly held Group companies were included in the IFRS consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG as at 31 December 2020:

Company name	Domicile	Interest	of which indirect
HYPO NOE Landesbank für Niederösterreich und Wien AG	St. Pölten		
Adoria Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
AELIUM Grundstückvermietungs Gesellschaft m.b.H. (under liquidation)	St. Pölten	100.00%	100.00%
ALARIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
ARTES Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%
Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
BSZ Eisenstadt Immobilien GmbH	St. Pölten	100.00%	100.00%
CALCULATOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
CALLIDUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
CLIVUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
COMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
CURIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%
FAVIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
FORIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
HBV Beteiligungs-GmbH	St. Pölten	100.00%	-
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	66.67%	66.67%
HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%
HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%
HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	St. Pölten	90.00%	90.00%
HYPO Niederösterreichische Liegenschaft GmbH	St. Pölten	100.00%	100.00%
HYPO NOE First Facility GmbH	Vienna	100.00%	100.00%
HYPO NOE Immobilien Beteiligungsholding GmbH	St. Pölten	100.00%	-
HYPO NOE Leasing GmbH	St. Pölten	100.00%	-
HYPO NOE Versicherungsservice GmbH	St. Pölten	100.00%	-
HYPO Omega Holding GmbH	St. Pölten	100.00%	-
HYPO-REAL 93 Mobilien-Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%
Landeskrankenhaus Tulln-Immobilienvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	56.42%
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
METIS Grundstückverwaltungs GmbH	St. Pölten	90.00%	90.00%
NEMUS Grundstückvermietungs Gesellschaft m.b.H. (under liquidation)	St. Pölten	100.00%	75.00%
NEUROM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. HYPO LEASING AGILITAS Grundstücksvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING ASTEWOG Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING FIRMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. HYPO LEASING GERUSIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING Landeskliniken Equipment GmbH	St. Pölten	100.00%	100.00%

NÖ. HYPO LEASING MEATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING MENTIO Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. HYPO LEASING STRUCTOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING URBANITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. Verwaltungszentrum - Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
PINUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	90.10%	90.10%
PROVENTUS Grundstückvermietungs Gesellschaft m.b.H. (under liquidation)	St. Pölten	100.00%	100.00%
Sana Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
SATORIA Grundstückvermietung GmbH	St. Pölten	100.00%	100.00%
Strategic Equity Beteiligungen GmbH	St. Pölten	100.00%	-
Telos Mobilien - Leasinggesellschaft m.b.H. (under liquidation)	St. Pölten	100.00%	100.00%
Treisma Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%
VESCUM Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%
VIA-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VIRTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VITALITAS Grundstückverwaltung GmbH	St. Pölten	100.00%	100.00%
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	65.00%	65.00%
ZELUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%

10.3 Investments accounted for using the equity method

Significant accounting policies

Investments in associates and arrangements where there is joint control are recognised at acquisition cost and are included in the consolidated statement of financial position at the date on which significant influence is obtained. In subsequent periods, the carrying amount of pro rata changes in equity is adjusted.

The Group ceases to use equity method accounting from the point at which the investment no longer represents an associate or a joint venture, or it must be classified as held for sale in accordance with IFRS 5.

Exchange differences arising from investments accounted for using the equity method are reported as part of consolidated equity, in the currency translation reserve.

Investments accounted for using the equity method were as follows:

EUR '000	2020	2019
Net gains on investments accounted for using the equity method	4,237	2,793
NOE Immobilien Development GmbH (consolidated financial statements)	2,125	1,013
Niederösterreichische Vorsorgekasse AG	737	645
EWU Wohnbau Unternehmensbeteiligungs-GmbH (consolidated financial statements)	492	112
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	760	1,025
Total	4,237	2,793

EUR '000	31 Dec. 2020	31 Dec. 2019
Banks	4,588	3,851
Non-banks	26,485	23,658
Total	31,074	27,510

31 Dec. 2020, EUR '000	Domicile	Interest	of which indirect	Carrying amount	Profit or loss from continuing operations	Segment / Corporate Center	Reporting date
Joint ventures				**5,408**	**707**		
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	83	-9	Public Sector	31 Dec. 2020
Viminal Grundstückverwaltungs Gesellschaft m.b.H. (under liquidation)	Vienna	50.00%	50.00%	3	-2	Public Sector	31 Dec. 2020
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	717	-19	Public Sector	31 Dec. 2020
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	4,588	737	Corporate Center	31 Dec. 2020
PPP Campus AM + SEEA GmbH	St. Pölten	50.00%	50.00%	16	-1	Public Sector	31 Dec. 2020
PPP Campus AM + SEEA GmbH & Co KG	St. Pölten	50.00%	50.00%	-	-	Public Sector	31 Dec. 2020
Associates				**25,666**	**3,530**		
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	48.00 %	-	2,572	492	Corporate Center	31 Dec. 2020
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	2,672	760	Corporate Center	31 Dec. 2020
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	672	-1	Public Sector	31 Dec. 2020
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	763	154	Public Sector	31 Dec. 2020
NOE Immobilien Development GmbH*	St. Pölten	48.00 %	48.00%	18,988	2,125	Real Estate Services	30 Sep. 2020
Total				**31,074**	**4,237**		

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or events that occurred between the reporting date of the company in question and 31 December 2020.

31 Dec. 2019, EUR '000	Domicile	Interest	of which indirect	Carrying amount	Profit or loss from continuing operations	Segment / Corporate Center	Reporting date
Joint ventures				**4,703**	**719**		
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	92	-1	Public Sector	31 Dec. 2019
Viminal Grundstückverwaltungs Gesellschaft m.b.H. (under liquidation)	Vienna	50.00%	50.00%	5	5	Public Sector	31 Dec. 2019
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	739	89	Public Sector	31 Dec. 2019
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	3,851	645	Corporate Center	31 Dec. 2019
PPP Campus AM + SEEA GmbH	St. Pölten	50.00%	50.00%	16	-1	Public Sector	31 Dec. 2019
PPP Campus AM + SEEA GmbH & Co KG	St. Pölten	50.00%	50.00%	-	-18	Public Sector	31 Dec. 2019
Associates				**22,806**	**2,075**		
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	48.00%	-	2,080	112	Corporate Center	31 Dec. 2019
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	2,582	1,025	Corporate Center	31 Dec. 2019
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	672	-1	Public Sector	31 Dec. 2019
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	609	-73	Public Sector	31 Dec. 2019
NOE Immobilien Development GmbH*	St. Pölten	48.00%	48.00%	16,863	1,013	Real Estate Services	30 Sep. 2019
Total				**27,510**	**2,793**		

Losses totalling EUR 50thsd (31 Dec. 2019: EUR 11thsd) were not recognised in profit or loss. These accumulated losses rose by EUR 40thsd in 2020, whereas they fell by EUR 224thsd in 2019.

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

	Niederösterreichische Vorsorgekasse AG		NOE Immobilien Development GmbH (consolidated financial statements)*	
Percentage holding	49.00%	49.00%	48.00%	48.00%
EUR '000 as at reporting date	**31 Dec. 2020**	**31 Dec. 2019**	**30 Sep. 2020**	**30 Sep. 2019**
Non-current assets	7,336	8,932	63,996	80,372
Current assets	3,066	145	30,034	20,228
Cash and cash equivalents	*326*	*137*	*29,171*	*7,202*
Non-current liabilities	-159	-	-45,839	-63,582
Non-current financial liabilities	-	-	*-45,495*	*-63,203*
Current liabilities	-879	-891	-8,632	-1,888
Current financial liabilities	-	-	*-2,151*	*-1,123*
Net assets (100%)	9,364	8,186	39,559	35,130
Group share of net assets	**4,588**	**4,011**	**18,988**	**16,862**
Impairment gains/losses	-	-160	-	-
Difference allocated to assets	4,588	3,851	18,988	16,862
EUR '000 – profit/loss as basis for inclusion in annual report	**2020**	**2019**	**1 Jan.-30 Sep. 2020**	**1 Jan.-30 Sep. 2019**
Interest income	34	203	401	270
Interest expense	-	-	-605	-914
Other income	3,978	3,933	29,662	30,034
Operating expense	-2,007	-2,700	-24,357	-25,830
Depreciation, amortisation and impairment	*-13*	*-3*	*-288*	*-512*
Profit before tax	**2,005**	**1,436**	**5,101**	**3,560**
Income tax expense	-500	-447	-674	-742
Profit for the period 100%	**1,504**	**989**	**4,427**	**2,819**
Pro rata reversals allocated to assets	-	-	-	-339
Group share of profit/loss	737	485	2,125	1,014

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or events that occurred between the reporting date of the company in question and 31 December 2020.

Estimation uncertainties and judgements

The positions held by key management personnel on the management boards of associates and joint ventures, as well as other details are set out in Note 10.4 Disclosures on related-party relationships.

Niederösterreichische Vorsorgekasse AG (NÖVK) is a separate financial services provider and is the employee benefit fund that manages employees' termination benefit entitlements. Employers pay statutory contributions on behalf of employees. The manner in which the management board is appointed and the requirement for unanimous resolutions mean that the company is classified as being under joint control.

For the purpose of impairment testing in accordance with IAS 36, the fair value of NÖVK in accordance with IFRS 13 was calculated using the dividend discount model (DDM). Under this model – which is a form of the discounted cash flow (DCF) method – future expected dividends are discounted using the cost of equity. The present value of the financial surpluses calculated in this way represents the fair value.

In order to calculate the present value of NÖVK's future expected dividends, the company's budgeted distributable amounts were discounted, using the cost of equity calculated according to the capital asset pricing model (CAPM) as the discount rate, taking into account the statutory regulations, in particular the own funds requirement and allocations to the capital guarantee reserve.

The time horizon used in the calculation is greater than five years, as one-time effects must be factored in at the rough budgeting stage before a long-term profit forecast can be made.

It is not possible to give a precise estimate of the uncertainties related to the Covid-19 pandemic. The budget that serves as the basis for determining fair value assumes a lower level of business due to the pandemic. A return to pre-Covid-19 levels is not expected before 2022.

The impairment tests performed showed that there was no need to recognise an impairment loss on the NÖVK investment accounted for using the equity method as at 31 December 2020.

	Change in fair value	
EUR '000 **Sensitivity analysis**	31 Dec. 2020	31 Dec. 2019
50 bp increase in cost of equity	-288	-412
50 bp decrease in cost of equity	320	463
1 bp increase in net margin as percentage of accrued benefits after the detailed budgeting stage	219	251
1 bp decrease in net margin as percentage of accrued benefits after the detailed budgeting stage	-397	-246

NOE Immobilien Development GmbH (NID) specialises in property development, housing construction and neighbourhood development, with a focus on Lower Austria and Vienna. It mainly invests in intergenerational residential construction schemes forming part of municipal urban development projects. The HYPO NOE Group's significant influence over the company is exercised by means of voting rights and the appointment of members of the Group's key management to supervisory board positions.

For the purpose of impairment testing in accordance with IAS 36, the fair value of NID in accordance with IFRS 13 was calculated using the DCF approach, in line with the gross method (WACC). Under the WACC approach, the fair value of total capital (enterprise value) is arrived at by discounting free cash flows using a composite discount rate (WACC) comprising the cost of equity and borrowing costs. The fair value of equity (equity value) is calculated by deducting the fair value of total capital from the fair value of interest-bearing debt. The equity value may also include separately disclosed assets, for instance in the case of NID the present value of tax loss carryforwards.

In order to calculate the present value of the cash flows, NID's free cash flow is determined on the basis of an integrated budget and discounted using the discount rate (WACC). When calculating the WACC for NID, the cost of equity was determined using the CAPM while borrowing costs were based on the median actual interest cost of the peer groups. The target capital structure realisable within the budgeted period is determined according to the median leverage ratio of the peer groups measured at fair value, and remains constant over the entire time horizon.

The time horizon used in the calculation is greater than five years, as one-time effects must be factored in at the rough budgeting stage before a long-term profit forecast can be made.

It is not possible to give a precise estimate of the uncertainties related to the Covid-19 pandemic. The budget that serves as the basis for determining fair value assumes delays in some real estate projects, reflecting the expectation of longer procedures for the approval of planning permission. A return to levels seen prior to the pandemic is not expected before 2023.

The impairment tests performed showed that there was no need to recognise an impairment loss on the NID investment accounted for using the equity method as at 31 December 2020.

EUR '000	Change in fair value	
	31 Dec. 2020	31 Dec. 2019
Sensitivity analysis (present value of expected cash flows from additional lending)		
0.01 increase in the unlevered beta factor	-633	-591
0.01 decrease in the unlevered beta factor	649	607
25 bp increase in the market risk premium	-1,255	-1,246
25 bp decrease in the market risk premium	1,317	1,315
25 bp increase in the discount rate (WACC)	-2,132	-1,913
25 bp decrease in the discount rate (WACC)	2,320	2,082

10.4 Disclosures on related-party relationships

Significant accounting policies

The State of Lower Austria holds an indirect interest of 70.49% in HYPO NOE Landesbank für Niederösterreich und Wien AG through NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% through NÖ BET GmbH. Therefore, the State is included under "Parent companies" in the table below. Use is made of the exemption from disclosure requirements under paragraph 25 in conjunction with paragraph 18 IAS 24. Further information regarding key management personnel is presented in Note 5.3.2 Staff costs.

Estimation uncertainties and judgements

The transfer prices between the HYPO NOE Group and related parties were arm's length prices. The State of Lower Austria's guarantees of loans and advances extended to third parties by HYPO NOE Landesbank (see table below) were also all concluded on market terms.

31 Dec. 2020 EUR '000	Parent companies	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties	Identified staff*
Open balances						
Selected financial assets	**2,574,524**	**119,234**	**416,384**	**5,604**	**163**	**2,728**
Equity instruments	-	71	25,666	5,408	-	-
Bonds	-	-	-	-	-	-
Loans (incl. demand deposits/loans from central banks)	2,574,524	119,163	390,718	197	163	2,728
Selected financial liabilities	**32,019**	**3**	**114,549**	**3,959**	**1,249**	**2,782**
Deposits	32,019	3	114,549	3,959	1,249	2,782
Nominal value of loan commitments, financial guarantee contracts and other commitments	**880,763**	**35,667**	**12,033**	**7,593**	-	-
Nominal value of derivatives	**928,955**	**85,000**	-	-	-	-
Current period						
Interest income	46,150	2,055	8,335	1	-	3
Interest expense	-12,930	-	-33	-1	-2	-3
Dividend income	-	-	670	-	-	-
Fee and commission income	133	2	181	21	-	1
Fee and commission expense	-28	-	-1	-	-	-

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

*Includes loans, advances and guarantees as at 31 December 2020 of EUR 284thsd extended to the Management Board (31 Dec. 2019: EUR 10thsd) and of EUR 709thsd extended to the Supervisory Board (31 Dec. 2019: EUR 270thsd), all concluded on market terms.

Relationships with subsidiaries

Wolfgang Viehauser, a member of the Management Board, is chairman of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten. A member of the Supervisory Board is a member of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten. Wolfgang Viehauser, a member of the Management Board, is a member of the supervisory board of VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H.

Relationships with entities accounted for using the equity method

Niederösterreichische Vorsorgekasse AG

A member of the HYPO NOE Group's key management is a member of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten. A member of the HYPO NOE Group's key management is a member of the management board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

EWU Wohnbau Unternehmensbeteiligungs-GmbH and its subsidiaries

A member of the HYPO NOE Group's key management is chairman of the management board of EWU Wohnbau Unternehmensbeteiligungs-GmbH, St. Pölten; another member of key management is a member of the company's supervisory board.

Management Board member Wolfgang Viehauser is chairman of the supervisory boards of EWU Wohnbau Unternehmensbeteiligungs-GmbH, St. Pölten, as well as Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H (all domiciled in Mödling).

A member of the HYPO NOE Group's key management is a member of the supervisory boards of Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H, all domiciled in Mödling.

NOE Immobilien Development GmbH and its subsidiaries

Udo Birkner, a member of the Management Board, was deputy chairman of the supervisory board of NOE Immobilien Development GmbH, St. Pölten, until 31 December 2020.

A member of the HYPO NOE Group's key management is a member of the supervisory board of NOE Immobilien Development GmbH, St. Pölten.

Relationships with parent companies

The deputy chairman of the Supervisory Board chairs, and another member of the Supervisory Board is deputy chairman of the supervisory board of NÖ Landes-Beteiligungsholding GmbH, St. Pölten.

11 EVENTS AFTER THE REPORTING PERIOD

There have been no material events since the end of the reporting period.

12 GOVERNING BODIES OF HYPO NOE LANDESBANK

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

Management Board

Wolfgang Viehauser, Management Board Member Markets and Speaker of the Board
Udo Birkner, Management Board Member Finance, Risk & Operations

Supervisory Board

Günther Ofner, Chairman
Michael Lentsch, Deputy Chairman
Karl Fakler (until 3 March 2020)
Birgit Kuras
Johann Penz
Ulrike Prommer
Karl Schlögl
Hubert Schultes
Sabina Fitz-Becha (from 3 March 2020)

Delegated by the Works Council

Franz Gyöngyösi
Claudia Mikes
Rainer Gutleder
Peter Böhm

Federal commissioners

Hans-Georg Kramer, Federal Ministry of Finance
Johannes Pasquali, Federal Ministry of Finance

Supervisory commissioners

Reinhard Meissl, office of the State of Lower Austria (until 31 August 2020)
Helmut Frank, office of the State of Lower Austria
Georg Bartmann, office of the State of Lower Austria (from 1 September 2020)

St. Pölten, 24 February 2021
The Management Board

Wolfgang Viehauser
Management Board Member Markets
and Speaker of the Board

Udo Birkner
Management Board Member Finance,
Risk & Operations

ADDITIONAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2020

IN ACCORDANCE WITH IFRS
HYPO NOE LANDESBANK FÜR NIEDERÖSTERREICH UND WIEN AG

Part II: HYPO NOE GROUP ANNUAL REPORT

1 DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the 2020 consolidated financial statements of the HYPO NOE Group give a true and fair view of the Group's assets, finances and earnings, in conformity with the relevant accounting standards; and that the Group operational and financial review presents the course of the Group's business and its results and financial condition in such a manner as to give a true and fair view of the Group's assets, finances and earnings, and describes the principal risks and uncertainties to which the Group is exposed.

St. Pölten, 24 February 2021
The Management Board

Wolfgang Viehauser
Management Board Member Markets and Speaker of the Board

responsible for

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

Udo Birkner
Management Board Member Finance, Risk & Operations

responsible for

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

2 AUDITORS' REPORT

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG, St. Pölten, and its subsidiaries (the Group), comprising the statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the financial statements.

In our opinion the accompanying consolidated financial statements conform to the law and give a true and fair view of the Group's assets and financial position as at 31 December 2020, and of its financial performance and cash flows in the year then ended, in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of section 245a Austrian Business Code and the Austrian Banking Act.

Basis of opinion

We conducted our audit in accordance with Regulation (EU) No 537/2014 and the generally accepted auditing standards in Austria. These standards require the application of the International Standards on Auditing (ISAs). Our responsibilities in accordance with these regulations and standards are described in greater detail in the auditor's report under "Auditor's responsibilities for the audit of the consolidated financial statements". We are independent from the Group, in accordance with the requirements of company law and rules of professional conduct in Austria, and have fulfilled all additional professional obligations in accordance with those requirements. We believe that the audit evidence we obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion at that date.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of the greatest significance for our audit of the consolidated financial statements for the period under review. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Calculation of risk provisions

Description and issue

As at 31 December 2020 "Financial assets – AC" adjusted for impairment losses amounted to EUR 13,310m, with related risk provisions of EUR 79m.

The Bank has implemented processes to identify loss events and significant increases in credit risk for the purpose of determining expected credit losses.

Risk provisions are calculated as follows:

- For non-performing loans to customers classed as significant, expected credit losses are determined individually. Scenario-weighted estimates of expected cash flows of principal and interest, as well as cash flows from the realisation of collateral, are made based on all of the available information.
- In the case of non-performing loans to non-significant customers, a parameter-based approach is used to calculate risk provisions.
- Expected credit losses on performing loans are calculated using a model based on the estimated probability of default and loss given default. If there has been no significant increase in credit risk since initial recognition, risk provisions are recognised at an amount equal to 12-month expected credit losses (Stage 1). If credit risk has increased significantly since initial recognition, an estimate of lifetime expected credit losses is made (Stage 2). Following the outbreak of the Covid-19 pandemic, the Bank analysed the related impacts on the performing loan portfolio and during 2020 made the following material adjustments to the models applied, in accordance with regulatory requirements:

- For businesses in sectors seriously affected by the impact of the pandemic, the expected increase in probability of default due to the crisis was recognised by downgrading the credit ratings of specific customers. In addition, these customers were transferred from Stage 1 to Stage 2, provided such a transfer had not already been triggered by the rating downgrade.
- Macroeconomic parameters used to estimate probability of default were adjusted to reflect the expected time lag between changes in macroindicators and related loss events; this time lag is due to statutory and voluntary debt moratoriums and government support measures.

We refer to the disclosures in the notes to the consolidated financial statements in the "Risk provisions" section of Note 4.5 Credit risk and risk provisions.

All aspects of the calculation of credit risk provisions are subject to a considerable degree of uncertainty and judgement. These arise when identifying a loss event or a significant increase in credit risk, as well as in estimating expected cash flows or determining and updating the parameters for modelling them. Therefore, we identified calculation of risk provisions as a key audit matter.

Our response

We surveyed the material processes and controls in credit risk management and intensive care management, evaluating them with regard to design and implementation as well as effectiveness.

We assessed the appropriateness of the methods for calculating risk provisions for non-performing loans in selected test cases.

We critically evaluated the appropriateness of judgements made in connection with the transfer to intensive care management of performing loans for which certain early warning indicators had been triggered (watch loans), for a sample of such loans.

We also evaluated the determination of "sectors seriously affected by the impact of the Covid-19 pandemic" and fully verified whether the rating downgrade was applied to all businesses in these sectors, and whether all businesses in these sectors were transferred to Stage 2. We tested the plausibility of the rating downgrade applied.

We evaluated the methodology applied for adjusting the macroeconomic parameters used to estimate probabilities of default, and validated the effect on the probabilities of default. We verified whether the adjusted probabilities of default were included in the calculation of the risk provisions.

Other information

Management is responsible for providing other information. Other information comprises all of the information in the annual report, excluding the consolidated financial statements, Group operational and financial review and auditor's report contained in "Part II: HYPO NOE Group annual report" and "Part III: HYPO NOE Landesbank annual report". Up to the date of the auditor's report we had received the key indicators included in the annual report, "Part I: Bank & Land (Magazine Supplement to the Annual Report)", and the declaration by the company's legal representatives in "Part II"; we expect the remaining parts of the report containing other information to be made available after this date.

Our opinion on the consolidated financial statements does not cover such other information and we do not and will not express any form of assurance on it. With respect to the information in the Group operational and financial review, we refer to the section "Report on the Audit of the Group operational and financial review", below.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or the knowledge obtained during our audit, or otherwise appears to include material misstatements.

If, on the basis of the work we have performed in relation to the other information obtained prior to the date of this auditor's report, we conclude that the information contains material misstatements, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view of the Group's assets, finances and earnings in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a Austrian Business Code, and the Austrian Banking Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to the ability to continue as a going concern and preparing the consolidated financial statements on a going concern basis, unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting processes.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Regulation (EU) No 537/2014 and the generally accepted auditing standards in Austria, which require the application of the ISAs, will always detect any material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Regulation (EU) No 537/2014 and the generally accepted auditing standards in Austria, which require the application of the ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements (whether due to fraud or error), design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than that for misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of the internal control system relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the Group operational and financial review

Pursuant to statutory provisions, the Group operational and financial review is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements. In connection with the consolidated non-financial statement included in the Group operational and financial review, our responsibility is to verify whether the statement has been prepared, to read it and, in doing so, evaluate whether it is materially inconsistent with the consolidated financial statements or the knowledge obtained during our audit, or otherwise appears to include material misstatements.

Management is responsible for the preparation of the Group operational and financial review in accordance with the Austrian Business Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the Group operational and financial review.

Opinion

In our opinion, the accompanying Group operational and financial review was prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a Austrian Business Code and is consistent with the consolidated financial statements.

Statement

In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidated financial statements, we have not identified material misstatements in the Group operational and financial review.

Other matters which we are required to address according to Article 10 of Regulation (EU) No 537/2014

We were appointed by the annual general meeting on 28 February 2019 and commissioned by the supervisory board on 4 March 2019 to audit the consolidated financial statements for the financial year ending 31 December 2020. Furthermore, we were appointed by the annual general meeting on 3 March 2020 and commissioned by the Supervisory Board on 3 March 2020 to audit the consolidated financial statements for the following financial year. We have been auditing the Group uninterrupted since the financial year ended 31 December 1992.

We confirm that our opinion expressed in the section "Report on the audit of the consolidated financial statements" is consistent with the additional report to the Audit Committee referred to in Article 11 of Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 and that we remained independent of the Group in conducting the audit.

Engagement partner

The engagement partner responsible for the audit is Mr. Thomas Becker.

Vienna, February 24, 2021

Deloitte Audit Wirtschaftsprüfungs GmbH

Thomas Becker m.p. Certified public accountant	ppa. Christoph Tiefenböck m.p. Certified public accountant

The consolidated financial statements bearing our audit opinion may only be published or transmitted in the version certified by us. This audit opinion relates exclusively to the complete German-language consolidated financial statements and the Group operational and financial review. The provisions of section 281(2) Austrian Business Code apply to other versions.

3 REPORT OF THE SUPERVISORY BOARD

The entire membership of the Supervisory Board was required to stand for re-election at the Annual General Meeting (AGM) on 3 March 2020 because their office periods would have expired by the end of the AGM which will rule on the discharge of the Board from liability in 2024. Prof. Günther Ofner, Dr. Michael Lentsch, Birgit Kuras, Johann Penz, Ulrike Prommer, Karl Schlögl and Dr. Hubert Schultes were re-elected, and Sabina Fitz-Becha was elected to the Board for the first time.

Four ordinary meetings and one constituent meeting of the Supervisory Board were held in 2020. In addition, five sessions of the Loan Committee and the Audit Committee, three meetings of the Nominations Committee, and two meetings of the Risk Committee and the Remuneration Committee were held. The committee and Supervisory Board meetings were held in person on 3 March 2020. All the meetings complied with the legal regulations and the articles of association. The Supervisory Board was constantly kept informed by the sitting chairperson as to the matters discussed by the committees.

In the course of their activities the Supervisory Board and its committees closely monitored the business performance of the Bank and the Group companies. Due to the Covid-19 pandemic, in 2020 the focus on risk management and on business developments within the Group was tightened in order to maintain smooth operations. Changed business processes were subjected to critical scrutiny, and their workability was watched with the assistance of reports from Internal Audit, among other aids.

In this way, in 2020 the Supervisory Board discharged the duties incumbent upon it by virtue of the law and the articles of association, and was kept regularly informed by the Management Board on the course of business and the state of the Bank's and the Group's affairs.

The accounts and records, the **2020 annual financial statements, and the operational and financial review** of HYPO NOE Landesbank für Niederösterreich und Wien AG, to the extent that it discusses the annual financial statements, have been audited by the independent auditors, Deloitte Audit Wirtschaftsprüfungs GmbH. As the audit gave rise to no objections and the statutory requirements were fully complied with, the auditors issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings, is in agreement with the recommendation of the Audit Committee and the annual financial statements for the year ended 31 December 2020, and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board, and hereby approves the 2020 annual financial statements in accordance with section 96(4) Austrian Companies Act.

The auditors Deloitte Audit Wirtschaftsprüfungs GmbH audited the **2020 consolidated financial statements** for compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, as applicable in the EU, and the Group operational and financial review for compliance with the Austrian Business Code. The audit gave rise to no objections and the auditors found that the statutory requirements had been fully met. In the opinion of the auditors, the consolidated financial statements give a true and fair view of the assets and finances of the Group as at 31 December 2020, and of its earnings and cash flows for the year then ended, in accordance with IFRS as adopted in the EU, and the additional requirements of section 59a Banking Act. The auditors hereby confirm that the Group operational and financial review is consistent with the consolidated financial statements, such that the statutory requirements for exemption from the obligation to prepare consolidated financial statements according to Austrian law are fulfilled, and issue an unqualified audit certificate. The Supervisory Board has concurred with the audit findings.

St. Pölten, 5 March 2021
The Supervisory Board

Günther Ofner
Chairman

LIST OF ABBREVIATIONS

AC	amortised cost
AFS	available for sale
AG	Aktiengesellschaft (public limited company)
ALM	Asset Liability Management
ALMM	additional liquidity monitoring metrics
approx.	approximately
Art.	Article
BCBS	Basel Committee on Banking Supervision
BCM	business continuity management
bn	billion
bps	basis points
Brexit	British exit from the European Union
CCF	credit conversion factor
CDS	credit default swap
CEE	Central and Eastern Europe
CEIR	credit-adjusted effective interest rate
CF	cash flow
CHF	Swiss franc
COREP	common solvency ratio reporting
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSA	credit support annex
CSC	current service cost
CTM	critical terms match
CVA	credit valuation adjustment
DBO	defined benefit obligation
DVA	debt valuation adjustment
EAD	exposure at default
EAR	exposure at risk
EBA	European Banking Authority
ECF	expected cash flow
ECL	expected credit loss
e.g.	for example
EIR	effective interest rate

EL	expected loss
EPC	European Payments Council
ESA	European System of Accounts
EU	European Union
EUR	euro
EUR ‘000/EUR thsd	thousand euro
EUR m	million euro
EURIBOR	Euro InterBank Offered Rate
EWU	EWU Wohnbau Unternehmensbeteiligungs-GmbH
ECB	European Central Bank
FLG	Federal Law Gazette
FMA	Austrian Financial Market Authority
FV	fair value
FVO	fair value option
FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss
FX	foreign exchange
GmbH	Gesellschaft mit beschränkter Haftung (limited liability company)
HETA	Heta Asset Resolution AG
HFT	held for trading
HIBH	HYPO NOE Immobilien Beteiligungsholding GmbH
HQLA	high quality liquid assets
HTM	held to maturity
HVS	HYPO NOE Versicherungsservice GmbH
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBOR	interbank offered rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IFRS IC	IFRS Interpretations Committee
IIA	individual impairment allowances
INT	interest cost
ICS	internal control system
incl.	including
IPRE	income-producing real estate
IRRBB	interest rate risk in the banking book

ISDA	International Swaps and Derivatives Association
IT	information technology
LAC	liabilities at cost
LAR	loans and receivables
LCR	liquidity coverage ratio
LGD	loss given default
LTIP	long-term incentive plan
LIBOR	London Interbank Offered Rate
m	million
MREL	minimum requirement for own funds and eligible liabilities
N/A	not available
NID	NOE Immobilien Development AG
no.	number
NÖ	Niederösterreich (Lower Austria)
NPL	non-performing loan
NR	not rated
NSFR	net stable funding ratio
OCI	other comprehensive income
OCR	overall capital requirements
OeNB	Oesterreichische Nationalbank (Austrian central bank)
OIS	overnight index swap
OLS	ordinary least squares
OTC	over the counter
p.a.	per annum
para.	paragraph
PD	probability of default
PiT	Point in Time
POCI	purchased or originated credit impaired
RICO	Risk Management Committee
ROE	return on equity
RMA	Risk management annex
RWA	risk weighted asset
SFR	stable funding ratio
SIC	Standing Interpretations Committee
SME	small and medium enterprise
SPPI	solely payments of principle and interest
SREP	supervisory review and evaluation process

S&P	Standard & Poor’s
TSCR	total SREP capital requirements
thsd	thousand
TTC	through the cycle
VaR	value at risk

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The cover shows a view of the Danube with Vienna in the background.