HYPO NOE
GRUPPE

Annual report 2015

GROUP FINANCIAL HIGHLIGHTS

EUR '000	2015	2014
IFRS consolidated statement of comprehensive income		
Net interest income	130,840	129,909
Credit provisions	1,171	-6,717
Profit/loss for the year before tax	11,659	**-39,810**
Income tax expense	-5,255	8,822
Profit attributable to owners of the parent	6,152	**-31,338**
IFRS consolidated statement of financial position		
Total assets	**15,895,645**	**15,926,960**
Loans and advances to customers	11,557,287	11,194,066
Debts evidenced by certificates	8,165,837	8,553,311
Equity (incl. non-controlling interests)	581,479	570,726
Consolidated capital resources in accordance with CRR/CRD IV		
Eligible core capital	530,256	507,704
Total eligible core capital	597,675	614,757
Risk-weighted assessment base for credit risk	3,485,514	3,701,558
Capital requirement	315,497	331,171
Surplus capital	282,178	283,586
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	13.45%	12.26%
Total capital ratio in accordance with Art. 92(2)(c) CRR	15.16%	14.85%
Operational information		
Number of employees at year-end	940	913
Number of branches	30	30
Selected payments/levies/items in respect of public authorities		
Financial stability contribution (bank tax)	-14,704	-12,937
Dividends paid to the State of Lower Austria	-	-11,000
Guarantee costs paid to the State of Lower Austria	-567	-882
Income tax paid	-11,233	-11,193
Current income tax	-2,585	65
Deferred income tax	-2,670	8,757
Social security contributions and other pay-related contributions	-13,407	-13,346
Current tax assets	19,653	10,856
Deferred tax assets	2,105	2,417
Current tax liabilities	10,073	10,753
Deferred tax liabilities	34,434	30,651
Key indicators		
Return on equity before tax	2.0%	-7.1%
Operating return on equity (ROE) before tax	5.7%	-4.7%
Return on equity after tax	1.1%	-5.5%
Cost/income ratio	92.5%	135.2%
Operating cost/income ratio	77.0%	121.1%

ANNUAL REPORT

by HYPO NOE Group

STATEMENT BY THE SUPERVISORY BOARD

Günther Ofner
Chairman of the Supervisory Board

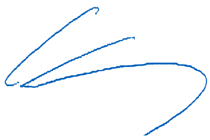
2015 was another challenging year for HYPO NOE Gruppe Bank AG and its employees. Persistently low interest rates made for a difficult operating environment, and Austrian unemployment reached its highest level for several years. In addition, there was a focus on dealing professionally and responsibly with the winding-up of Heta Asset Resolution AG and its consequences. This situation will again concern HYPO NOE in 2016.

A vital consideration was making sure that the Bank was well placed heading into the next reporting period by implementing measures in good time. An optimisation programme, under which the entire business is pulling in the same direction, as well as further success on the market will ensure that this is the case.

The Supervisory Board was involved in all decisions of fundamental importance, and supervised the Management Board, in accordance with legal requirements. In the course of numerous meetings held during the year, the Supervisory Board and its committees obtained reports from the Management Board and built up a comprehensive picture of the key economic and financial developments at the HYPO NOE Group. The Group's strategic positioning, product portfolio and strong focus on Lower Austria and Vienna, as well as other parts of Austria and the wider Danube region mean that HYPO NOE is still well placed to deal with future challenges.

The Supervisory Board can report that both strategically and operationally, the Group made good progress in the reporting period, thanks to its strong and stable owner, the state of Lower Austria, and to HYPO NOE's secure, solid position.

Dedicated and highly trained employees form the backbone of the Company, and the contribution of every single individual is important. The Supervisory Board would like to thank all employees and the Management Board of HYPO NOE Gruppe Bank AG for their hard work and commitment during the year.



Günther Ofner

Chairman of the Supervisory Board

STATEMENT BY THE MANAGEMENT BOARD

Peter Harold ,
Chairman of the Management Board

HYPO Niederösterreich: the bank at your side

2015 was yet another challenging year for the Austrian banking sector. A high financial stability contribution compared with other countries, stricter regulation and the related costs, and steps taken to deal with the various scenarios surrounding Heta Asset Resolution AG (Heta) made for a difficult operating environment.

Nevertheless, HYPO NOE Gruppe Bank AG remained focused on its core operations. Fully owned by the state of Lower Austria, the Bank lived up to its standing as a driver of the regional economy, extending around EUR 1.5bn in new loans. HYPO NOE's solid position and proximity to customers as a regional bank were reflected in its strong credit ratings and increased customer deposits.

In 2015 the HYPO NOE Group posted profit attributable to owners of the parent in accordance with IFRS of EUR 6.2m, and total consolidated assets remained high at EUR 15.9bn. The Group's capitalisation improved, and is still well in excess of the Basel III requirements. The core capital ratio rose to 13.4%, and the equity ratio to 15.2%. Group net interest income increased to EUR 130.8m in spite of the prevailing low interest rates.

As a result, the Group is once again moving in the right direction following a disappointing 2014, which was shaped by events concerning Heta. Thanks to a well-established business model based on our philosophy as a regional bank serving customers in its core markets of Lower Austria and Vienna as well as selected parts of the Danube region, HYPO NOE has recorded strong performance in the past few years, overcoming various economic and regulatory obstacles.

Stability, proximity to customers and a strong owner – the keys to an excellent rating

In the course of its annual rating update, in June 2015 Standard & Poor's (S&P) confirmed the Group's A/A1 rating with stable outlook. According to S&P, the Bank's important role in supporting regional economic and social initiatives, as well as its strong capitalisation, played a decisive part in the decision. The stability and security associated with its owner, the state of Lower Austria, were again evaluated very positively.

Nikolai de Arnoldi,
Member of the Management Board

Focus on sustainability

The Group's second sustainability report, which for the first time covered all of the subsidiaries, was published in 2015. HYPO NOE is also subject to regular external assessment of its social and environmental performance by various international organisations, including oekom rating AG.

A number of measures have been implemented in this respect, such as certification of the Group headquarters in St Pölten under the klima:aktiv initiative, the use of electricity generated entirely from renewable sources, and integration of sustainability into the loan application process. The Bank also plans to introduce an energy management system, as well as a catalogue of green products, with a particular focus on sustainable investment.

Outlook

Many of the challenges faced by the Company during the reporting period will also have an impact in 2016. These mainly include sluggish growth in emerging economies, as well as geopolitical crises. The sharply contrasting attitudes adopted by EU member states in response to the wave of migrants heading towards Western Europe represents a stern political test for the EU, as well as complicating urgently required collaboration on various political and economic questions.

In spite of the difficult operating environment for banks, the HYPO NOE Group is optimistic about the future. We will continue to pursue a strategy based on a regional focus, risk awareness and closeness to our customers – a strategy that has proved its worth in times of crisis.

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

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

GROUP STRATEGY

HYPO NOE Group

"Over the course of the past few years we have consistently adopted a forward-looking operational strategy and our single-A rating with a stable outlook gives us a very strong position in the Austrian banking market.

This shows that the HYPO NOE Group is excellently placed to meet future challenges and to cope with the effects of the Heta debt moratorium. As a dependable regional bank, the HYPO NOE Group has established an excellent position for itself, particularly in its core Vienna and Lower Austria markets."

Peter Harold, Chairman of the Management Board

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

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

These ventures include strategic projects aimed at:

- **Connecting** the Danube region with the rest of Europe
- **Promoting mobility,** renewable energy use, culture and tourism.
- **Protecting the environment in the Danube region:** The HYPO NOE Group is financing projects designed to restore water quality, manage environmental risks, maintain biodiversity and protect the environment in general.
- **Building prosperity in the Danube region:** Projects aimed at increasing research capacity, raising educational standards, developing information technology and enhancing business competitiveness. Efforts to improve vocational training are a priority.
- **Strengthening the Danube region:** Projects financed by the HYPO NOE Group intended to enhance institutional capacity as part of the EU strategy for the Danube region.

ALIGNING CORE OPERATIONS AND CORE COMPETENCIES

The Group markets itself as a single entity, under the HYPO NOE Group umbrella brand. Within the Group, a full range of bespoke solutions and products aimed at specific customer target groups are offered. In order to provide a comprehensive range of services, the HYPO NOE Group co-operates with distribution and refinancing partners, and maximise synergies by utilising links within our organisation. Working alongside HYPO NOE Landesbank, HYPO NOE Leasing, HYPO NOE Real Consult, HYPO NOE First Facility and HYPO NOE Valuation & Advisory GmbH, HYPO NOE Gruppe Bank provides one-stop solutions for public sector clients – the bank is the dominant force in the Lower Austrian public finance market – as well as retail and business customers.

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

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

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

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

LINKING CORE COMPETENCIES TO THE REAL ESTATE VALUE CHAIN

HYPO NOE Group aims to provide one-stop services that go far beyond pure financing, supporting customers' real estate projects from beginning to end. The creation of a comprehensive service portfolio that spans the entire life cycle of a property project has brought together all of the Group's expertise in a real estate value chain. This supports the Group's real estate management activities and provides a fully integrated product portfolio. Each member of staff that supports clients within the real estate value chain acts as a single point of contact and source of expertise.

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

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

SUSTAINABILITY STRATEGY: PROVIDING A CLEAR FOCUS AND SOLID STRATEGIC FOUNDATIONS

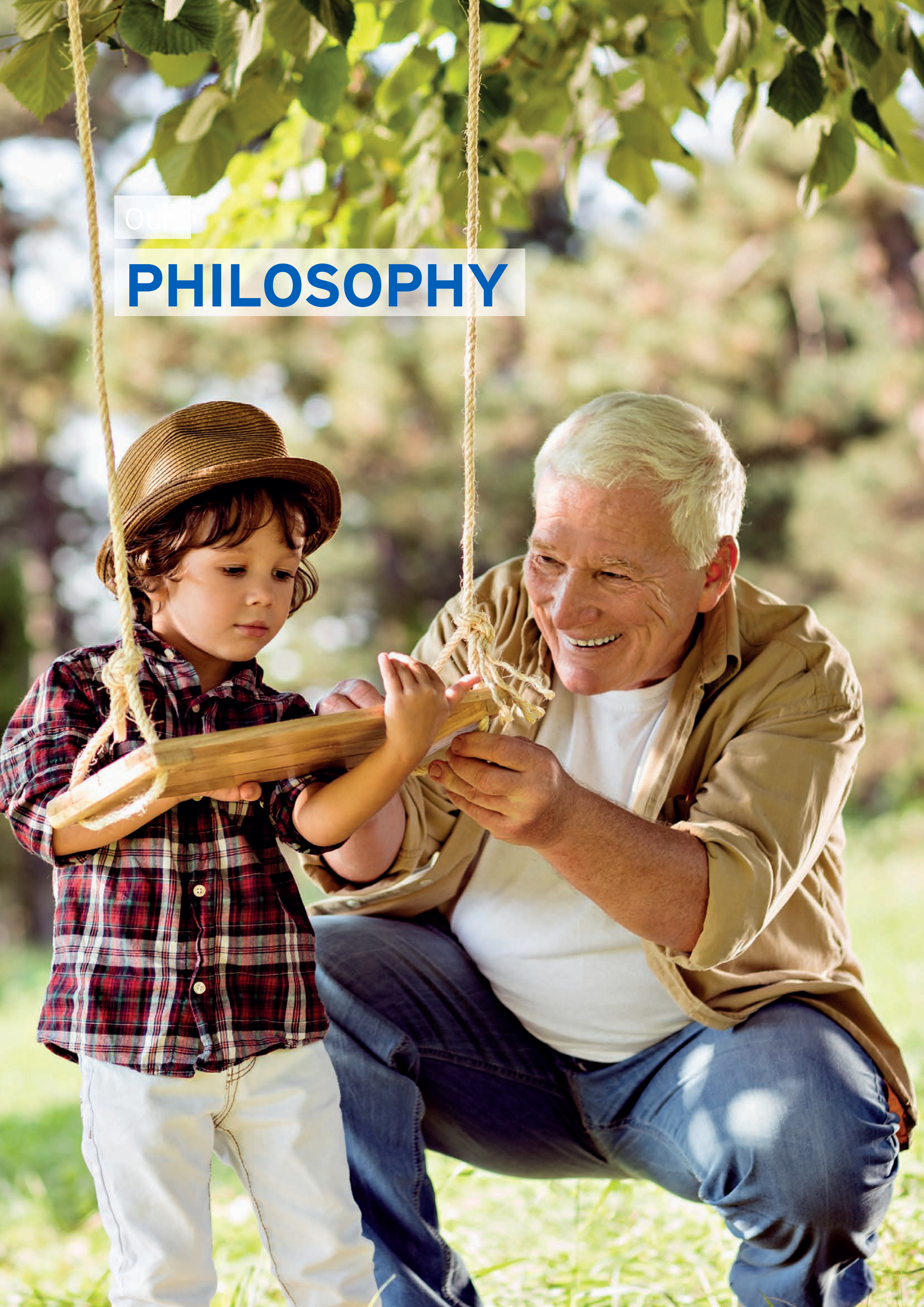
Our ethical principles set out the criteria for initiating business contacts, providing guidance for HYPO NOE's new business. They are intended to promote the avoidance of risks arising from transactions where there is the potential for conflicts related to environmental protection (and climate change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

The basis for our sustainability strategy is HYPO NOE Group's framework of values, which consists of the mission statement, code of conduct, and ethical and business principles, and the sustainability focus areas. These are designed to present as clear and consistent a picture as possible of the Group's sustainability-related activities, and to break down the sustainability strategy into operational tasks.

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

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

Our PHILOSOPHY



"The Bank has assumed various risks, and its task is to manage those risks responsibly. Long-term thinking and forward-looking decisions and actions are highly significant in this respect. Our top priority is to ensure that the Bank is well placed for the future and equipped to meet all the challenges it faces in these turbulent times, in order to continue offering customers the highest-quality service.

The financial results underscore the success of this strategy and consistently strong international ratings show that the Group is moving in the right direction."

Nikolai de Arnoldi, member of the Management Board

OUR PHILOSOPHY

Trust is a vital ingredient in effective business relationships. This is especially true when it comes to banks, and their handling of the money and information entrusted to them. The HYPO NOE Group lives up to this responsibility at all times, and sets itself extremely high standards.

The formulation of a corporate mission statement based on the Group's values and vision has created an internal framework that provides staff with constant guidance and motivation in their day-to-day work. For customers and the general public, the mission statement outlines what the HYPO NOE Group stands for, and the organisational culture that the Lower Austrian state bank has implemented and will continue to develop.

The mission statement encapsulates our philosophy as the bank for Lower Austria, with a strong focus on the reliability and stability as a banking partner and an employer that forms part of a tradition stretching back more than 125 years. All of our activities are geared towards the customer, in line with our claim to be "the bank at your side." As an employer, the HYPO NOE Group is fully aware that employees are the key to its success. The Group also lives up to its regional responsibilities by means of partnerships and sponsorship agreements.

The code of conduct serves as a guide for meeting all of the challenges that the Group faces. It is an integral part of our commitment to reconciling outstanding business performance with the highest ethical standards.

OUR CONDUCT IN THE MARKETPLACE

The HYPO NOE Group stands out by delivering excellent performance whilst also competing fairly.

OUR CONDUCT TOWARDS CUSTOMERS

The Group aims to build and maintain long-term customer relationships founded on trust.

OUR CONDUCT TOWARDS STAKEHOLDERS

When making public announcements, the HYPO NOE Group is committed to providing information that is as up-to-date, accurate and clearly presented as possible, and to ensuring that it is timely and accessible to the general public, without giving preference to particular stakeholders. The Group's internal rules ensure the proper handling of inside information.

OUR CONDUCT TOWARDS EMPLOYEES

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

The mission statement and code of conduct can be downloaded from the About HYPO NOE section of our website at www.hyponoe.at.

"The HYPO NOE Group has implemented numerous sustainability-related initiatives and programmes in the past few years, including in connection with the environment and the operation of our branches, as well as financing and partnerships focusing on social issues, infrastructure, education and health. The Group has a clear objective: we want to continue improving and gain an even clearer impression of how the Bank contributes and can contribute in its core markets – both from an economic point of view and for the good of local people, as well as to preserve the environment and maintain infrastructure in those markets."

Peter Harold, Chairman of the Management Board

ETHICAL BUSINESS PRINCIPLES AND TRANSPARENCY

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

Ethical business principles

Our ethical and business principles comprise inclusion and exclusion criteria, which form the basis for initiating business contacts. Ethical business principles are highly significant; they have been integrated into our strategy and increasingly play a part in the Bank's processes. Detailed knowledge of the objectives of financing is vital to identifying the Group's risk exposures and those of its customers, and to developing effective services. Inclusion criteria are intended to promote business activities in areas that the Group believes generate maximum benefits for society, while exclusion criteria help to identify sectors where the Group chooses not to operate, with a view to promoting social development.

Inclusion criteria – guiding the Group's actions

The EU's Strategy for the Danube Region and Europe 2020 targets, as well as the 2020 energy targets implemented by the state of Lower Austria underpin the positive criteria used by HYPO NOE when initiating business contacts. The Group has incorporated these criteria into its Danube region strategy.

Exclusion criteria – sharpening the Group's focus

The HYPO NOE Group exercises significant care when it comes to the following forms of lending; in some cases, financing is not permitted.

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

Reputational risks can arise in connection with borrowers operating in industries that are incompatible with the image and values of the HYPO NOE Group or its owner, the Lower Austrian state government. Here, too, the Group exercises particular care, and in case of doubt refrains from doing business with those concerned.

Ecologically and socially sensitive sectors

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

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

Transparency: the HYPO NOE Group's sustainability rating

As a financial institution, an excellent rating is one of the HYPO NOE Group's primary success factors. In addition to its credit ratings, the Group puts emphasis on a comprehensive sustainability rating process that takes environmental, financial and social factors into consideration. HYPO NOE was analysed by several rating agencies in 2015 and currently has an excellent sustainability rating (oekom: C). A long-term sustainability programme, which is also described in the sustainability report, forms the basis of the Group's efforts to intensify its activities in this area.

In 2015 HYPO NOE published its first ever Group-wide sustainability report. The comprehensive report for 2014 was prepared in accordance with the Global Reporting Initiative (GRI) G4 Guidelines (core option and the Financial Services Sector Disclosures) and therefore fulfils the internationally recognised principles for sustainability reporting. The HYPO NOE Group sustainability report, including the GRI Index, is available for download from the corporate website at www.hyponoe.at.

Hypo Noe In

ITS MARKETS

„SYSTEMIC REFORMS ARE URGENTLY NEEDED“

This year, Professor Gottfried Haber discusses his assessment of the prospects for economic growth in Austria and the EU, and the latest developments in the banking sector with the HYPO NOE Group's Head of Investor Relations, Polina Christova. Prof. Haber is Deputy Head of the Department for Health Sciences and Biomedicine at the Danube University Krems, a member of the General Council of the Oesterreichische Nationalbank and Deputy Chairman of the Austrian Fiscal Advisory Council. He joined the HYPO NOE Gruppe Bank AG Supervisory Board on 17 April 2015.

Mr Haber, to begin with, can you give me your views on the most recent developments in Europe? The EU is currently facing some huge challenges, both social – especially the refugee crisis – and economic. Austria has been particularly hard hit. From an economist's point of view, what needs to be done to put the country in a position to meet future challenges?

lThere needs to be a focus on sustainability, which in essence is related to the ideas of trust and predictability. Unfortunately, the handling of the Greek crisis and the influx of refugees has shown that we still have some way to go at the European level. Most importantly, we need clear rules for our social systems – from pensions and health care to education and social services – and to ensure that each of these systems is balanced so that they can function effectively in the long term without constant intervention. What is required is fundamental systemic reform in these key areas, reforms that give a clear outline of their intended aims as quickly as possible, followed by transparent, well planned and measured implementation over the years that takes into account expectations of a certain level of continuity. We need a new intergenerational contract with proper reforms for the entire education sector, as well as reforms of the health and pension systems, adjustments to the fiscal equalisation system and solutions to address the issue of migration. As far as the economy goes, we require a clear framework for managing risks, especially in relation to innovative potential.

South Korea took top spot in the latest Bloomberg Global Innovation Index, some distance ahead of Germany, Sweden, Japan and Switzerland. Austria was ranked 13th. The capacity to innovate is a key indicator of a country's competitiveness. How would you rate Austria's position in international terms? Can the country's competitiveness be enhanced in the near term?

A few years ago Austria was labelled a "better Germany" in an economic sense – we had Europe's lowest unemployment rate and the country's attractiveness as a business location was increasing sharply in comparison with other nations. Austria is still attractive in some respects, but relatively speaking its position, and its competitiveness, have deteriorated. However, the country can turn the tide if it does its homework quickly, with regard to the reforms I mentioned before. We have lots of good ideas at our disposal, but the implementation process has to pick up speed. Flexible labour markets that benefit both companies and employees will play a vital role. The tax ratio is still high despite the tax reform and needs to be reduced, so productivity gains and a cut in public sector spending will be important. A permanent solution to the Heta problem will help to rectify the financial markets' current ambivalent attitude towards Austria.

According to the Oesterreichische Nationalbank (OeNB), Austrian economic growth will be in line with the eurozone average in 2016 and 2017, at 1.9% and 1.8% respectively. The tax reforms, spending on refugees and the housing construction programme will lay the foundations for this. Do you share the OeNB's view?

We've seen predictions for an upswing in Austria and Europe as a whole in the last two years, but the signs for 2016 really look positive. But the forecasts have been revised downwards on account of developments in China, the continuing uncertainty surrounding Russia and the situation in Syria. In Austria, the tax reform will have a positive impact on private consumption, but investment is still very subdued. Another cut in the tax ratio in the next few years could drive growth, but public-sector costs need to be reduced first in order to create the required breathing space in the budget.

How would you assess the effects and shortcomings of recent reforms, not just the tax reform but also the changes in the pension system and the health sector? In your view, what are the main challenges associated with the potential need to raise extra funding for reform programmes?

The government still has a range of promising ideas up its sleeve – the first step was the tax reform, and the debate on pensions is becoming increasingly broad-based. One priority is a detailed assessment of the Swedish model, where pensions are more closely linked to contributions, in combination with a minimum pension. Looking at the health service, a root-and-branch reform of the point of contact between community-based doctors and hospitals or outpatient facilities, including the introduction of new financing structures and primary care centres, is vital.

Any reforms that enhance long-term effectiveness will in turn improve Austria's competitiveness, and the resulting confidence will pave the way for increased consumption.

The counterfinancing aspects of the recent tax reform are mainly aimed at combating tax fraud, but they also include revenue-side measures that could make certain investments or business activities less profitable.

Compared with other countries, Austria receives rather poor marks for its innovative capacity. One problem that is mentioned again and again is the lack of financing options, especially for small and medium-sized family businesses. How do you see the present situation?

Austria's prospects as a business location are heavily dependent on the future development of its education sector. A small economy like Austria's can only safeguard its international competitiveness by consistently delivering outstanding performance in research and development. For example, Lower Austria has focused strongly on educational initiatives and research policies. Research accounted for 1.7% of Lower Austria's gross regional product in 2014, up from 0.9% in 2002. We definitely should not underestimate the innovative capabilities of domestic companies, especially SMEs. The Crowdfunding Act 2015 has introduced clear statutory regulations on crowdfunding for the first time, and the Alternative Finance Act will gradually make debt issues of up to EUR 1.5 million or EUR 5 million significantly easier.

BANKING SECTOR

Mr Haber, the "extremely challenging" environment is currently a major headache for the Austrian banking sector. As a member of the HYPO NOE Supervisory Board, how would you evaluate Austria's position as a financial centre?

The country's banking industry is currently in the middle of a restructuring phase. Past recipes for success have lost their edge, and political and regulatory responses to the financial crisis have necessitated significant changes in business models. The financial stability contribution is high compared with other countries, and the additional burden of contributions to the new deposit insurance and resolution funds has reinforced this process of upheaval. The ECB's low-interest-rate policy has taken the wind out of the sails of banks' traditional business models, but some problems might be home-grown. A conservative, regionally focused strategy like that of the HYPO NOE Group is definitely the most suitable for businesses aiming to move forward with healthy core operations that generate long-term profits.

Let's move on to the development of the banking sector in the 21st century. The industry has seen radical change in the past few years. In 2014 you said that banks' futures lay in supporting the regional economy. The buzzwords included FinTech, crowdfunding, social investing, robo-advisory and blockchains. What are your thoughts on the situation today?

A variety of different providers and products are opening up completely new opportunities in tandem with the real economy. Regulatory changes may have reduced the risk-bearing capacity of traditional banking operations, although new market participants have taken up some of the slack. But schools and the banking sector also need to meet their obligations in connection with financial education. The financial literacy initiatives launched by the banks, Austria's central bank and the Vienna Stock Exchange are incredibly important for a fully functioning market. In the future, banks' business models will focus on traditional banking services, with regionalisation, specialisation and sustainability playing a vital role. Shake-outs and an even greater degree of "industrialisation" in the mass-market segment will be part and parcel of this development.

Turning to the federal government, state governments and local authorities, there were calls for administrative reforms at the federal and provincial levels as early as the 1960s. The debate has continued to this day. Do you see any developments on this front?

The tax reform was the first step. This year the emphasis will mainly be on restructuring the fiscal equalisation system. The decisive factor will be systematically reconciling responsibility for tasks, spending and decision-making. There will also be discussions on the broad question of how to distribute tax income between central, regional and local authorities. The states' adoption of the federal government's accounting regulations under the new budgetary legislation has made public finances more transparent, because the focus on performance and effects is more easily verifiable in a double-entry system than with a traditional fiscal accounting approach.

Reorganising fiscal equalisation between Austria's federal states is another slow-burning issue. Transferring responsibility for collecting corporation tax to the provinces has been proposed several times. Do you think this would lead to tax competition between the federal states?

One thing is certain: we need a fundamental reform of the financial equalisation system. Whether we achieve that in time for the next equalisation period remains to be seen. But it will be important to take decisive steps in this direction. In many cases, government can provide services more effectively if delivery takes place close to the recipients. Other tasks are better handled by larger bodies. Styria has shown that merging local authorities can create synergies, and local government reform in Lower Austria, as illustrated by the dissolution of Wien Umgebung, has a similar thrust.

Tax jurisdiction is not necessarily a prerequisite for the federal states to fulfil their responsibilities, but even in a small country like Austria differentiation by means of tax competition is not straightforward because this is effectively limited to income and corporation tax – and this could lead to highly complicated situations. An objective discussion of various models would certainly make sense. The allocation of taxpayers' money must be appropriate to the responsibilities in question, and that's the biggest challenge facing the fiscal equalisation system.

How do you think the events surrounding Heta – especially in relation to legal certainty – will influence the refinancing options available to public-sector bodies?

The winding-up of Heta is one aspect – a bad bank is being liquidated in line with European standards. But the critical question is how to deal with the liabilities of the state of Carinthia, because this is also a test case for the value of promises made by the public sector as a whole. Credibility and confidence are core values for the financial markets as well as for society, and those values should be treated with great care. Financing public debt is cheaper than ever before, due to low interest rates and strong demand on the markets, partly as a result of the ECB's asset purchase programmes and partly because there are few alternatives available. Sovereigns will benefit from this situation for a few more years thanks to the typically long maturities of government bonds. But this trend also obscures the fact that credit rating effects put upward pressure on interest costs. This means that raising finance could become more difficult, and on the whole more expensive, for federal states – including in Germany, where similar conditions apply.

DANUBE REGION MACRO AREA
HUGE POTENTIAL FOR ECONOMIC AND SOCIAL DEVELOPMENT

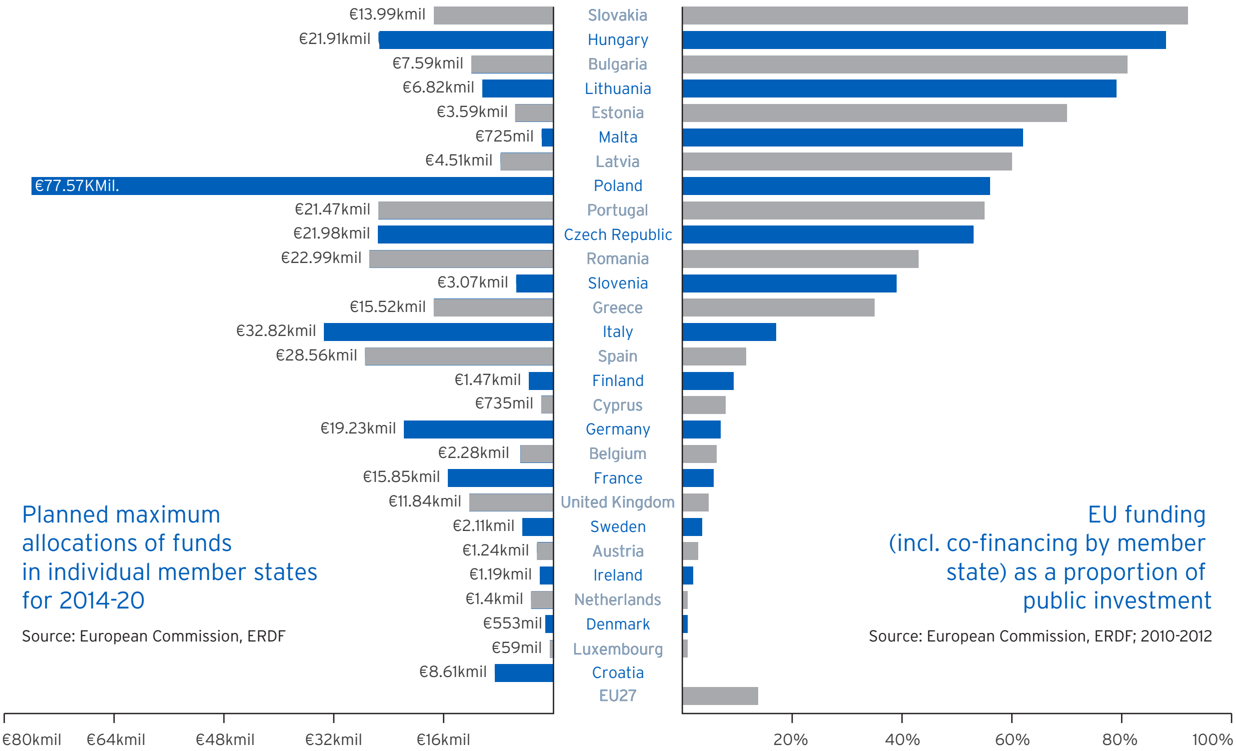
The significance of the Danube region for Europe's long-term growth and positive development is reflected in the fact that it is home to around one-fifth of the continent's entire population. Definition of a joint strategy for the Danube region by the European Union, particularly through the European Commission, recognises this and serves to further highlight the region's importance for Europe. Closer co-operation between individual nations in the region and the provision of EU funds through the cohesion policy is intended to underpin the long-term development of the Danube Region and neighbouring areas. Focuses include infrastructure, environmental protection, increasing prosperity, and supporting and developing state institutions.

Significant demand for modernisation of infrastructure and the need to invest in environmental protection to bring these areas up to European standards illustrates the importance of EU funding policies for the countries in the Danube region. During the current funding period, which began in 2014 and runs until 2020, a total of EUR 351.8bn or 35.2% of the EU budget has been allocated to the Danube macro region.

In Bulgaria, Hungary and Slovakia, EU funding accounts for 80-90% of the financing for eligible public investment projects. In the Czech Republic and Romania the figure is 45-55%. It is safe to assume that countries in the HYPO NOE Group's core market will in general continue to be the main beneficiaries of the EU's cohesion policy.

In order to qualify for funding from the European Union, countries are required to independently contribute their own share and ensure that they have the expertise required to manage the funding process. It is here that the HYPO NOE Group is particular well placed to support and advise its customers thanks to its long-standing experience of public sector financing for regions, states, cities and municipalities, as well as leading corporates and government-related entities, some of which are already covered by the EU's cohesion policy.

As part of its Danube region strategy, the HYPO NOE Group has maintained close partnerships with various European institutions such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). The programmes offered by these institutions are primarily geared towards investment in infrastructure and environmental protection, which dovetails well with the HYPO NOE Group's own strategic aims for the Danube region. Just a short time ago it was revealed that both the EBRD and the EIB were looking to maintain existing levels of investment in the Danube region, and in some instances increase the level of funding available. Allocated funds for infrastructure and modernisation measures as well as initiatives aimed at boosting efficiency – in line with the Europe 2020 Goals defined by the EU – will continue to provide an interesting starting point for the HYPO NOE Group when it comes to identifying prospective business opportunities over the next few years.



Focus on selective and risk-sensitive evaluation of business opportunities

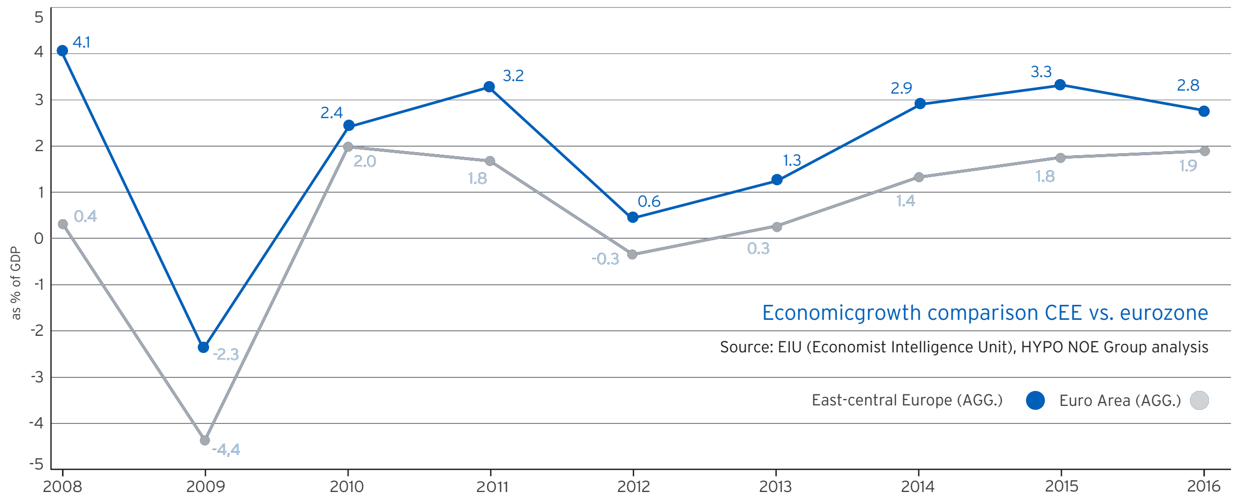
The network of sales offices established by the HYPO NOE Group in the Danube region demonstrates once again the Bank's selective approach in terms of identifying potential transactions and evaluating their credit ratings. Conducting this process in the individual countries not only ensures adherence to the Group's own selective principles; it also means that central risk management in Austria receives additional support from local experts working in the representatives offices.

Positioning in Austria

As the bank for Lower Austria and Vienna, the HYPO NOE Group serves one of the most dynamic regions in Austria. These two states generate more than 40% of the nation's gross domestic product. Lower Austria and Vienna are among the country's wealthiest regions in terms of both per capita income and purchasing power. They also have the highest projected population increase for the period from 2014 to 2075 (Lower Austria: up 19.4%; Vienna: up 27.1%). It is against this dynamic backdrop that the HYPO NOE Group will continue to position itself as a strong partner for the public sector as well as private and corporate customers.

Positioning in CEE

In addition to Austria and Germany, the existing product portfolio – with the exception of the private customer segment – is also used to serve the Czech, Polish and Slovakian markets. As the chart below shows, each of these three countries has a consistently strong track record, with growth rates significantly outperforming those of other states – including in times of economic recession.



In Bulgaria and Romania the Group is focusing on public sector or quasi-public sector projects. The Group will also put the public finance expertise built up in its home market over the years to good use in these markets as it looks to capitalise on the opportunities they offer. Private-sector projects are only taken up on a highly selective basis following rigorous case-by-case assessment. It should be noted that government debt in Bulgaria and Romania is among the lowest in the EU-28. It is also safe to assume that the pace of investment activity will pick up again from 2016 given the enormous demand in terms of infrastructure modernisation and in some cases the substantial investment backlog over recent years.

HYPO NOE closely monitors current developments at national and European level – such as the design and stability of regulatory regimes and the operational implementation of programmes in member states – in order to evaluate them and adjust its investment strategy accordingly.

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

Wolfgang Viehauser, Deputy Chairman of the Management Board

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

REAL ESTATE VALUE CHAIN: HIETZING HOSPITAL ON-SITE NURSERY

In partnership with HYPO NOE First Facility and WRS Energie- und Baumanagement, HYPO NOE Leasing won a Europe-wide, two-stage public tender procedure to secure the contract from the City of Vienna (via the Vienna Hospitals Association) to build, operate, maintain and provide facility management services for a new, 2,000m2 on-site nursery for the children of employees at Hietzing Hospital in Vienna. As the lead partner in the consortium, HYPO NOE Leasing is responsible for financing as well as legal and taxation matters. The project takes the form of a public-private partnership, and is being implemented according to an operating lease model that is compatible with the Maastricht convergence criteria.

WRS Energie- und Baumanagement GmbH is responsible for design and construction. The Vienna Hospitals Association will rent the completed nursery from HYPO NOE Leasing on a long-term basis. HYPO NOE First Facility is contracted to supply technical and building management services for a period of ten years after construction is complete, and the Vienna Hospitals Association has an option to extend this contract. HYPO NOE Real Consult will provide additional support in the form of construction monitoring.

A new on-site nursery is needed at the hospital due to the increased demand from staff for childcare places. Nurseries for employees' children form a key part of the childcare benefits provided by the City of Vienna. Hietzing Hospital is one of the seven hospitals that are included in the 2030 Vienna hospitals plan, and as a result its importance is set to increase further.

Following completion of the new nursery in summer 2016, it will have places for 180 children in a crèche, three groups for young children, three family groups and two other children's groups. The construction project is being implemented with the ongoing involvement of the Vienna Hospitals Association, representatives of Hietzing Hospital and the user, the Vienna branch of childcare organisation Österreichische Kinderfreunde. The functional concept is being optimised and fine-tuned in consultation with all of the stakeholders.

PUBLIC FINANCE: EXTENSION AND ADAPTATION OF BUNDESSCHULZENTRUM EISENSTADT (BHAK, BHAS; HTBLA)

The expansion and adaptation of the Bundesschulzentrum Eisenstadt multi-school campus allowed the Group yet again to demonstrate its outstanding expertise in public and social infrastructure projects, in collaboration with a reliable expert partner. HYPO NOE Leasing took part in a public tender procedure in a bidding consortium with Strabag AG, which won the construction contract for the extension and upgrade of the Bundesschulzentrum. The contract was put out to tender by the Federal Ministry of Education and Women's Affairs (BMBF), which will be supported by the State of Burgenland's Beteiligungs- und Liegenschaftsverwaltung GmbH (BELIG). Within the consortium with Strabag, HYPO NOE Leasing is responsible for financing and legal and taxation matters, as well as managing the joint project company. Strabag will handle the planning, construction and maintenance of the project. HYPO NOE Real Consult will provide additional support in the form of construction monitoring.

Opened in 1981, the school campus caters for more than 1,600 students and is now showing signs of age. It will be fully renovated and expanded. The entire building envelope will be thermally upgraded through a series of targeted measures, and the interior will be completely refurbished. The work is necessary to bring the existing buildings up to the current state of the art, so that they can meet the needs of students and teachers effectively. A changeover from electric heating to district heating will make the campus more environmentally friendly. New classrooms and staff rooms will be built, as well as a new aircraft hangar to support teaching in a key subject, aeronautical engineering. The total cost (including financing costs) is approximately EUR 47.6m, and the net floor area is around 22,000m^2. Construction will take place in several phases, allowing teaching to continue largely uninterrupted. The project got under way in July 2015, at a ceremony attended by state governor Hans Niessl. It is currently the biggest building construction project in Burgenland.

RESPONSIBLE WORK-OUT MANAGEMENT: BENE AG

In the past year HYPO NOE Gruppe Bank AG helped to secure the future of Bene AG by providing a structured refinancing package. Together with the acquisition of a majority stake in the company by Bartenstein Holding GmbH and Grosso Holding GmbH, the package ensured the future of one of Lower Austria's leading furniture industry firms.

Formerly listed on the Vienna Stock Exchange and headquartered in Waidhofen an der Ybbs, Bene AG is one of Europe's leading providers of modern office design concepts and furnishings. The long-term backing from two Austrian investors, who acquired over 90% of shares in Bene AG, provided a sustainable plan for the firm's future and a solid basis for its development, from which customers, employees and suppliers – especially those in Lower Austria – will benefit.

A total investment by the new majority shareholders of over EUR 18m, and a long-term structured mortgage loan of over EUR 10m provided by HYPO NOE Gruppe Bank AG put Bene AG in a position to focus on driving growth in Austria as well as in key export markets, and to continue building a brand that stands for innovation and forward thinking. It also meant that the future of the production site at Waidhofen an der Ybbs was secured, underlining its importance to Bene. For HYPO NOE Gruppe Bank AG, the project was an opportunity to develop its position as the bank for business in Lower Austria, and cement its reputation as a committed long-term expert partner to corporate customers.

RELIGIOUS COMMUNITIES, INTEREST GROUPS AND AGRICULTURE: STEPHANSHEIM NURSING HOME IN HORN

Partly funded by the State of Lower Austria, the new Stephansheim nursing home opened in Horn in 2015. HYPO NOE Gruppe Bank AG agreed to provide financing for the project in 2013. The completed project, which cost around EUR 17m, was officially handed over by the Archbishop of Vienna, Cardinal Christoph Schönborn, and Lower Austria's state councillor for social affairs, education and family, Barbara Schwarz, in a ceremony on 24 February 2015.

One of the most modern nursing homes in Lower Austria, the facility managed by Haus der Barmherzigkeit Group provides optimised, caring supervision and an environment that supports wellbeing in old age for 140 elderly people with chronic conditions or who require special care.

Employing a completely new care concept, the home fulfils the need for individual and communal care and supervision, with residents living in eight different household groups. Each group has a central lounge as well as a spacious open-plan kitchen and living area. Single and twin bedrooms are designed to provide residents with a comfortable retreat, and feature balconies and terraces. The step-free grounds provide green outdoor space for the residents to enjoy. There are also ten hospice beds and eight places for people requiring transitory care.

For the region and the town of Horn, the Stephansheim is a major addition to healthcare provision, and has created over 100 highly skilled jobs.

CORPORATE FINANCE: SONNEK ENGINEERING

Established in 1930, the Sonnek Group is a hidden champion of Lower Austrian industry that operates worldwide, producing pump systems for the raw materials, infrastructure and foodstuffs sectors. Sonnek has become a long-term partner of leading global businesses, in particular for the development and operation of mobile pumping systems for major players in the oil industry, and for prominent European railway companies. The group is firmly established in its high-tech niche market. A successful third-generation family business, the company now has a solid basis for pursuing more rapid international expansion, after securing the backing of an international investor with a strong technology focus. HYPO NOE Gruppe Bank AG assisted in the transaction by creating a tailored structured finance package, providing financing of over EUR 10m to support the long-term international expansion of this leading Lower Austrian high-tech firm. Continuity was assured, as the main shareholder and managing director from the family that founded the business remained in place. Combined with the international links offered by a global investor that has made a long-term commitment, the Sonnek Group now has everything in place to build on its niche position and enter new markets, to the benefit of the Lower Austrian parent company. In HYPO NOE Gruppe Bank AG the firm also has a stable long-term partner that once again demonstrated its expertise and strong position in providing investment financing, and impressively reaffirmed the standing it has built up in this area in recent years.

REFERENCE PROJECT: HYPO NOE LANDESBANK AG – LARGE-SCALE HOUSING DEVELOPMENT

Finance for large-scale housing developments forms part of HYPO NOE Landesbank's core business, and the Bank provided financing for over 75% of the total redevelopment costs for the housing complex on Johann-Keusch-Gasse in Krems. The rest of the funding came from the State of Lower Austria's home building loan subsidy scheme. The project was implemented by a non-profit housing construction association based in Krems, Gemeinnützige Donau-Ennstaler Siedlungs-Aktiengesellschaft (GEDESAG). Located in the north-east of the town, the housing complex comprises three parallel wings and a new tower, containing 67 apartments in total. Access to the apartments is via arcades that are largely glazed and sheltered from the wind. The three wings are linked by bridges and a single lift, all with step-free access. Central heating is provided by a wood pellet boiler, supplemented by solar thermal panels. In addition, ventilation for living spaces is provided by a passive house compliant ventilation system that uses heat exchangers. The building's energy efficiency figures (17-19 kWh/M✣a) and low construction costs complete the picture in terms of sustainability.

In January 2015, the project received special recognition in the Lower Austrian housing construction awards.

HYPO NOE REAL CONSULT GMBH: IST AUSTRIA LAB BUILDING WEST

In 2015 HYPO NOE Real Consult GmbH completed two more buildings at the Institute of Science and Technology Austria (IST Austria). The HYPO NOE Group company was responsible for the management of the development project as well as for parts of the construction project management.

Opened on 1 December 2015 and located on the western side of the IST Austria campus in Klosterneuburg, the Lab Building West is the largest new construction to date at the site, with 10,000m2 of floor space on six levels. Designed by architects Baumschlager Eberle, it took 30 months to build and is purpose-built for experimental research in physics and chemistry, as well as theoretical research, with space for up to 300 scientists in 30 research groups. The State of Lower Austria provided a gross amount of EUR 57.15m for construction of the new building.

Over the last ten years, IST Austria has become a leading research institute carrying out basic research in the natural sciences and mathematics, and educating the researchers of tomorrow. By 2026, as many as 90 research groups with a total of around 1,000 researchers will be working at the institute.

Lab Building West expands the range of research being carried out at IST Austria, housing the newly created Scientific Service Unit. The nanofabrication facility, which is spread over two of the new building's floors, will begin operation at the end of 2016. In this cleanroom, highly sensitive materials and appliances can be produced without contamination, which researchers at IST Austria can then use to investigate, for example, new methods for processing information in computers.

HYPO NOE FIRST FACILITY GMBH: RAIFFEISENHAUS GESBR

In the third quarter of 2015 HYPO NOE First Facility's contract with Raiffeisenhaus Wien GesbR was renewed, underlining the success of the Group's facility management and facility services business. The contract award means that HYPO NOE First Facility has been entrusted with facility management at Raiffeisen's Vienna/Lower Austria headquarters as well as five other locations in Vienna's second district for a further five years. The decision to continue with the current relationship was based on the outstanding service delivered over the last 15 years, despite strong competition and downward pressure on prices. Comprehensive building management and user-focused services include high-level property management, operational management, facility services management and operational facility services. .

PARTICIPATION IN SPECIAL **EVENTS AND INITIATIVES**

WORLD SAVINGS DAY: AN ANNUAL HIGHLIGHT ON THE HYPO NOE CALENDAR

World Savings Day was conceived in 1924 at the first International Savings Congress held in Milan. It is an important day for HYPO NOE Landesbank AG, which can itself look back on a long history. Even in spite of low interest rates, every year on World Savings Day the strong ties between our customers and branches are still very much in evidence. Saving has been firmly embedded in Austrian culture for a long time, and World Savings Day is a particularly special event for the country's children. So it was no surprise that many customers visited our regional branches once again in 2015 to pick up one of the range of gifts on offer for youngsters. The grown-ups received gifts including honey, mixed spices or a bread speciality from the local Bäckerin Denise bakery when they opened an attractive Viertelsparbuch savings account – the gift reflected the produce of the district, or "Viertel", where the branch was located. This gave savers of all ages the opportunity to celebrate the 90th World Savings Day with HYPO NOE Landesbank AG.

The official World Savings Day reception at our branch in the Regierungsviertel in St. Pölten – the location of the state government's administrative headquarters – was attended by VIPs including Lower Austrian Provincial Councillor Stephan Pernkopf. Speaking at the event, Management Board Chairman Peter Harold commented: "We take our responsibilities to the region in which we operate very seriously, and are here to meet the needs of all Lower Austrians, no matter what their personal circumstances are. We believe that sustainable business practices also form part of our responsibility to the region, and they are a priority in our day-to-day operations."

HYPO NOE SUPPORTS NEW LOWER AUSTRIAN FIRE SERVICES SCHOOL PROJECT

The average age of the 98,000 members of the volunteer fire departments in Lower Austria is currently 39, and one in six members are aged over 65. This is the background to the Gemeinsam.Sicher.Feuerwehr (Together.Safe.Fire Service) initiative launched by State Governor Erwin Pröll, which aims to give all third-year and fourth-year school pupils lessons on fire and disaster protection from the 2015/16 school year onwards.

Management Board Chairman Peter Harold represented the HYPO NOE Group, one of the project sponsors, at a joint press conference in the Regierungsviertel in St. Pölten, where he expressed his delight at teaming up with the Lower Austrian Fire Brigade Federation to support the initiative: "This project is crucial for all Lower Austrians as it is the province that will ultimately benefit from people's readiness to volunteer for the fire service. And as the bank for Lower Austria, it is also important for us that children learn about fire protection and how to behave in the event of a fire."

Two folders of teaching materials are being used for the project, and have already been distributed to the various fire services. The schools keep one of the folders, and the other is kept at the fire station. The contents are designed to be taught during one school year in cooperation with the fire service. During the project, pupils will come into contact with the fire service several times. Lessons will also look at how to behave in particular crisis situations and how to become a volunteer, as well as giving a general introduction to the fire service. The aim is to educate children in fire safety and disaster protection, and to raise interest in the work of the volunteer fire service.

SPECIAL JAMES BOND SCREENING

IIn November the HYPO NOE Group invited many institutional customers to an exclusive evening of cinema to mark the release of the latest James Bond film, "Spectre". This was the second event staged in honour of the world famous secret agent. In his 24th movie adventure, the cool British spy delighted the audience with a thrilling, action-packed movie that also featured a trip to the Austrian Alps. A specially installed photo booth with matching background proved particularly popular with the audience, who took home a special photographic memento of the evening. Peter Harold took the opportunity to welcome the guests in the packed auditorium at the UCI Millennium City cinema in Vienna, introducing the film with some light-hearted references to the similarities between the HYPO NOE Group and the legendary special agent. Tradition, expertise and security were just a few of the comparisons drawn by Mr Harold, who finished by giving the audience a licence to "sit back, relax and enjoy the show".

SUMMER SWIMMING POOL TOUR

After its premiere in summer 2011, the HYPO NOE Swimming Pool Tour celebrated a comeback in 2015.

Alongside the entertainment programme, sporting challenges and chances to win on the wheel of fortune, swimmers at the numerous stops on the tour were also given safety advice in connection with general swimming pool rules and regulations. The safety buoys which were supplied were also a hit four years ago – especially with the life guards. Some of the bathers were able to chill out and relax under the HYPO NOE sunshade.

As well as fun and action for the whole family, there was also a focus on profiling what the Bank has to offer. Pool goers came away with a positive image of HYPO NOE Group and were also able to find out about specific HYPO NOE Landesbank AG products and services, with a special emphasis on the following:

- The HYPO Niederösterreich ÖTSCHER:REICH Edition Regional Savings Account
- Freunde bringen Freude referral programme
- The HYPO NOE Journal
- Low-cost accident insurance for children and young people

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

As regional banks for Lower Austria, HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG are committed to extending their long tradition of supporting activities outside the banking sector. Under its sustainability strategy, the Group has implemented numerous initiatives and programmes in the past few years, with a focus on social issues, infrastructure, education and health. The Group's aim is to continue improving and to gain an even clearer impression of how it contributes and can contribute in its core markets – from an economic point of view, for the good of local people, as well as by protecting the environment and maintaining infrastructure. HYPO NOE's sponsorship strategy concentrates mainly on sports, cultural and social projects.

SPORTS SPONSORSHIP

HYPO NOE has been one of the leading sports sponsors in Lower Austria for many years. The strategy centres primarily on team ball sports, and there is also a long-term focus on supporting talented youngsters. HYPO NOE's corporate values – stability, trust and sustainability – are key considerations when making decisions on current and future sponsorship commitments. Brand values such as enthusiasm, dedication, team spirit and continuity are especially important when it comes to sports sponsorship, and this is underlined by the effective, solid mix of clubs, athletes and brand ambassadors from various sports – all of them with strong roots in Lower Austria and Vienna – that the Group chooses to support.

The HYPO NOE sporting family – success, energy and emotion

The HYPO NOE Group launched its successful sports sponsorship strategy in 2013. The emphasis is on supporting top-class sports in Lower Austria.

Besides the Group's commitments to the arts, culture and social initiatives, sport is an important factor in terms of strengthening HYPO NOE's regional roots, projecting the brand and supporting emerging talents and top performers.

Sport sets pulses racing and brings people together. And HYPO NOE is dedicated to acting as a reliable partner for sporting events. Presenting the Bank's sporting family as a strong team underlines the significance that the Group

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

The HYPO NOE sporting family has had its own presence on social media since the beginning of 2015: updates on all sports and athletes are available at www.facebook.com/HYPONOESportfamilie/?fref=ts (German only). The rising popularity of the sporting family on social media is refleted in the number of fans and followers, which has already passed the 3,000 mark.

CLUB SPONSORSHIP – HIGHLIGHTS

The Hypo NÖ women's handball team, UHK Krems and VCA Amstetten NÖ are the best-known members of the HYPO NOE sporting family.

The Hypo NÖ women's handball team

Hypo NÖ, "the world's most successful women's handball club" – in profile: European Cup Winners' Cup champion, eight-time Champions League winner and 39-time Austrian champion. The Hypo NÖ women's handball team takes its name from the Bank, which has been the club's main sponsor for several decades. In June 2014 the club adopted a new long-term strategy that focuses on developing talented Austrian youngsters. In 2015 the team reached the semi-final of the European Cup Winners' Cup. Hypo NÖ's outstanding work in developing young players was highlighted in the 2014/2015 season with three national girls championships at under-14, under-16 and under-18 level.

SKN St.Pölten

SKN St. Pölten – in profile: the Group has been the main sponsor of Erste Liga (Austrian second division) football club SKN St. Pölten since 2012. To mark the new partnership the Bank gave its name to the HYPO NOE Lounge, a VIP area at the club's home ground, the NV Arena. In sporting terms, 2015 was the most successful year in the club's history. By reaching the Austrian Cup final, SKN St Pölten made it to the qualifying round of the UEFA Europa League. Against all the odds, the club became the first-ever second division team to reach the third qualifying round, with victory over Botev Plovdiv of Bulgaria. The third qualifying round game against PSV Eindhoven drew a crowd of 8,000 – the first sell-out match at the NV Arena since it opened in 2012. This resulted in a significant increase in awareness of the HYPO NOE brand and its visibility outside our home region. In the 2015/16 season the club is looking to win promotion to the top flight.

CULTURAL SPONSORSHIP

Culture is another core element of the HYPO NOE Group's sponsorship strategy. The Group's extensive, long-standing commitment to culture and the arts helps to ensure a broad and diverse programme of events. HYPO NOE lives up to its social responsibilities as the bank for the state of Lower Austria by means of numerous partnerships with local cultural associations and organisations, and by supporting a range of stimulating regional arts and culture events. The Group is the main sponsor of various highlights in the Lower Austrian cultural calendar, some of which are presented below.

Niederösterreichische Kulturwirtschaft (NÖKU)

NÖKU is the flagship organisation for culture in Lower Austria. It brings together a host of cultural institutions, exhibitions and event organisers in the region, such as Carnuntum, Kunstmeile Krems and the Festspielhaus St. Pölten. Its main responsibilities include co-ordinating cultural events in Lower Austria, as well as quality assurance and the allocation of regional funds.

Die Garten Tulln

The Lower Austrian Garden Show in Tulln is the Group's oldest sponsorship agreement, with origins going back to 1954 and the traditional flower parades held in the "town of flowers". With its strict organic cultivation techniques, this collection of 150 show and model gardens spread across a ten-hectare site sets the standard for the rest of Europe. Die Garten Tulln is a supporter of the Natur im Garten initiative, which is aimed at promoting and providing information on gardening without pesticides, chemical and synthetic fertilisers and peat.

2015 Lower Austria State Exhibition – Ötscher:Reich

The 2015 Lower Austria State Exhibition was held at three locations in the Ötscher region: Neubruck, Frankenfels and Wienerbruck. The spotlight was on the history of and stories from the local area and the Alpine region.

Located on the route of the Mariazellerbahn, a narrow gauge railway in eastern Austria, the first station was housed at the new Laubenbachmühle operations centre in Frankenfels. Life in the Alps, agriculture in the Prealps, pilgrimages and tourism were all showcased at this location. A 45-minute train ride from Laubenbach station, the next stopping-point was the Nature Park in Wienerbruck. The exhibition in Neubruck centred on the pioneer spirit of the Alpine region, with stories and outstanding exhibits on the topic of ironworking, the hammer mill and rolling mills.

SUPPORTING UP-AND-COMING ARTISTS – HYPO NOE YOUNG ART COLLECTION

The HYPO NOE Young Art Collection is an initiative designed to promote the work of young artists, as well as the arts scene in the Danube region. This platform gives young artists the opportunity to gain a foothold in the art world and present their works to a wide audience in the course of regular private viewings. Selected artists receive backing from a committee of artistic advisers for the duration of the exhibition. In 2015 an exhibition opening took place in the HYPO Panorama event room at the Group's headquarters in St. Pölten. Works by Luiza Margan, who uses various media including photography, video and performance art, were on display.

SOCIAL INITIATIVES IN LOWER AUSTRIA

The HYPO NOE Group makes donations and gives support to selected regional social, cultural, religious, educational, environmental and sports projects. Ensuring that these projects have a long-term impact on the region and are aligned with the Bank's values and objectives is a leading priority. Donations are usually made to organisations such as charities, as well as to foundations or to specific projects run by other institutions or companies. Although the focus is primarily on Lower Austria and Vienna, the Group sometimes supports international projects and organisations that have links to its two core regions or to the HYPO NOE Group itself, or if there is a special reason for doing so.

Lichtblickhof near Phyra in Lower Austria

The charity e.motion provides special support for seriously ill and traumatised children and their families at its Lichtblickhof facility. Specially trained horses are used in equine-assisted therapy programmes that help children to recover from illness and come to terms with adversity.

The HYPO NOE Group has supported the charity since 2013, including in the form of donations from the employee IT flea market. The Group is also contributing to refurbishments designed to make the Lichtblickhof facility barrier-free.

In 2015 HYPO NOE staff played their part in getting the Lichtblickhof ready for winter. This project goes far beyond purely financial support and illustrates HYPO NOE employees' strong sense of commitment to the initiative.

SOCIAL INITIATIVES IN THE DANUBE REGION – BULGARIAN CHRISTMAS

The HYPO NOE Group is also involved in social projects in the Danube region as part of its sustainability strategy. Bulgarian Christmas is a charitable initiative organised by the country's president, with the aim of helping children during their recovery from illness. The objective is to promote charity work in Bulgaria and provide support with resolving key social problems connected with children's health. A major consideration is giving children access to expensive treatment and rehabilitation programmes. Donations help intensive care units to acquire equipment, including for diagnosis, observation and the maintenance of vital bodily functions (such as artificial respiration, echocardiography and monitoring vital functions). The initiative has a high success rate, meeting its objectives thanks to a combination of social responsibility and the highest levels of transparency. Bulgarian Christmas took place for the 13th time in late 2015/early 2016. Donations amounted to around EUR 1.23m, adding to the total of EUR 12.8m collected over the past 12 years.

GROUP
OPERATIONAL AND FINANCIAL REVIEW

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ECONOMIC CLIMATE

Global economic and financial market developments

2015 was shaped by a series of significant events. The geopolitical situation deteriorated further. Escalation of the crises in the Middle East (Syria and Iraq) and parts of North Africa prompted the worst refugee crisis since the Second World War. At the same time the Ukraine conflict continued to cloud the political climate and weighed heavily on trade relations between Russia and the West. The political landscape in Europe was also affected by tough negotiations between Greece and the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF), formerly referred to as the Troika. In Greece this led to an abrupt end to the country's mounting economic recovery. After reaching an amicable agreement on a third bailout package, a brief phase of recovery followed at the start of July. The challenges arising from attempts to solve the complex problems inside and outside Europe have led to the greatest political tensions within the EU since its foundation. Financial and money markets were shaped by a sharp and unexpected appreciation of the Swiss franc at the start of the year and a sudden devaluation of the Chinese yuan in August. Stock markets and bond markets were also buffeted by severe fluctuations. The majority of these developments were triggered by central bank policy announcements. The unconventional measures initiated by central banks for a number of years have significantly distorted market prices, reducing liquidity in several key market segments. In addition, there has been an international race to drive down currency values, which has had a significant impact on trade.

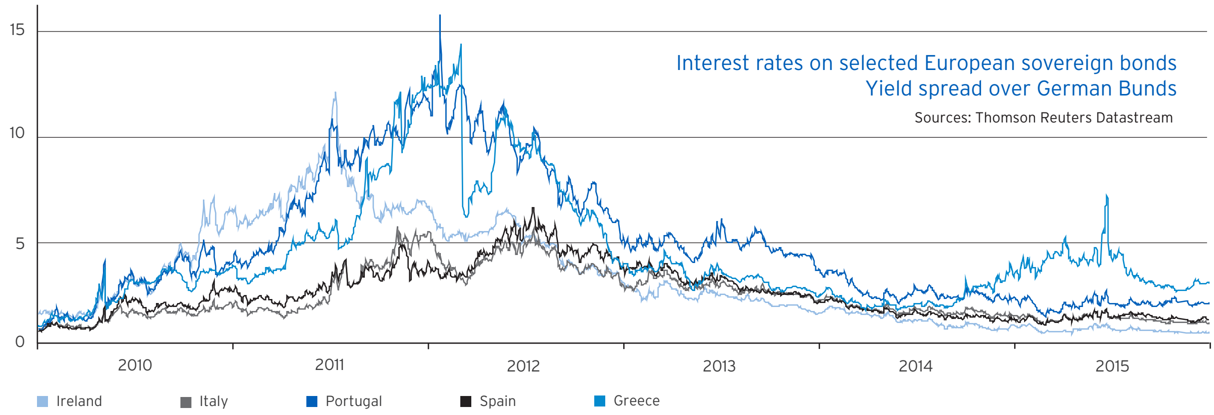
Due to buoyant private consumption and rising public expenditure, the factors above did not have any notable impact on growth in Europe and the USA. Consumers benefited from the significant drop in energy prices thanks to the resultant rise in real income. Household spending discipline continued to soften in the light of increased immigration, with increased public expenditure helping to support economic growth. While appreciation of the US dollar over the course of the year proved to be a burden on the American economy, Europe benefited from the fall in the value of the euro. That said, with growth at around 2.4%, in 2015 the US economy outperformed that of the eurozone, which only put on around 1.5% during the same period. The drop in prices on commodity markets had a negative impact on raw material exporting countries in general and Brazil and Russia in particular. In the case of Brazil, the collapse in the price of raw materials was further compounded by serious domestic problems and corruption scandals, leading the IMF to estimate a year-on-year decline in economic output of around 3%. The Russian economy was additionally burdened by the economic sanctions imposed by many Western countries, with a deep recession of around 3.8% expected by the International Monetary Fund (IMF). Economic output has palpably slowed in China, although the world's second-largest economy ought to have been among the beneficiaries of low commodities prices as a major importer of raw materials. Based on key early indicators such as cargo prices, electricity consumption and purchasing manager indices, growth is believed to be lower than the official rate of around 7% announced by Beijing. The economic summary for 2015 shows that despite satisfactory growth in the USA and the eurozone, the problems witnessed in 2014 in emerging economies and commodity-exporting countries intensified during the reporting period, resulting in below-average growth for the global economy.

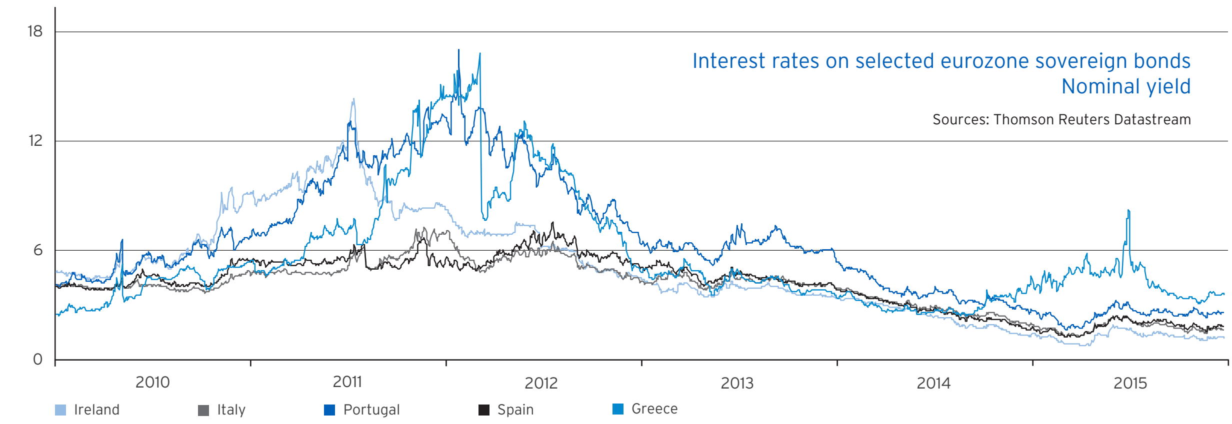
Due to persistent declines in the prices of raw materials, inflation reached a very low level in many economies worldwide with exceptions few and far between, hovering at a level not seen since the economic and financial crisis of 2008/09. Many countries are faced with high or even rising unemployment and only modest increases in wages. Combined with cut-throat competition, many companies have little latitude when it comes to implementing higher prices.

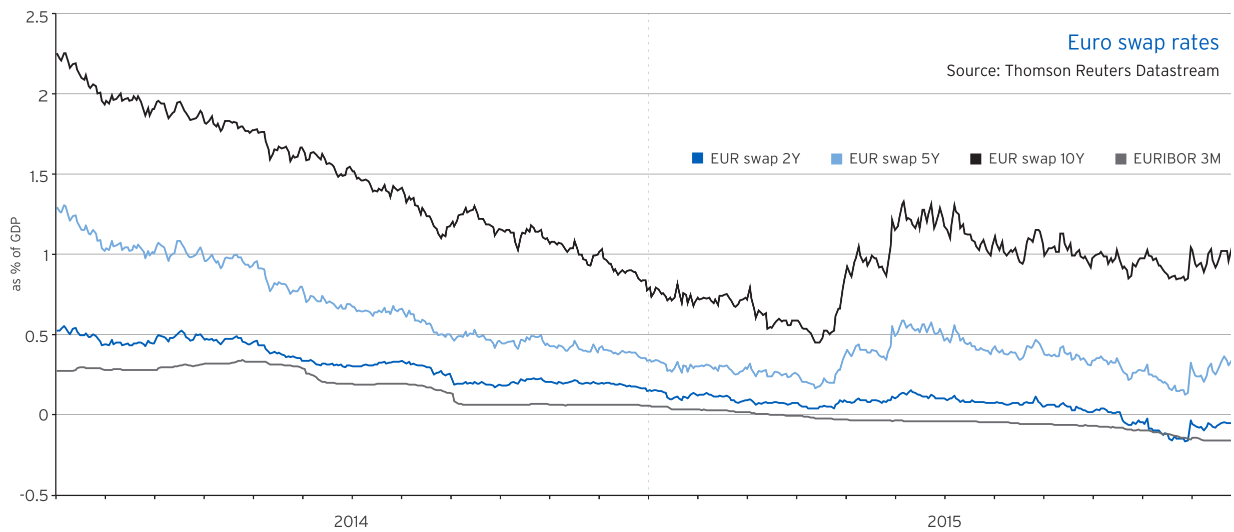
The ECB's decision at the start of the year to implement a comprehensive asset purchase or quantitative easing programme triggered a fresh round of interest rate cuts and unconventional measures by central banks. These pushed money market rates into negative territory in some countries, while yields on the majority of European government bonds fell below zero. While European and Chinese interest rates and returns reflected a clear downward trend, there was a slight upturn in the USA over the course of the year. The recovery in the USA in recent years has now progressed to such an extent that the Federal Reserve initiated the long-awaited turnaround on interest rates with its first moderate increase. On 15 January the Swiss National Bank made an unexpected announcement to abandon its long-defended EUR/CHF floor of 1.20, with the aim of reducing the need to intervene so heavily in the currency markets, a move which brought severe fluctuations on currency markets and brought about the temporary collapse of the Swiss economy. In August the sudden devaluation of the Chinese yuan caused turbulence on international currency and capital markets. 2015 was one of the most active years seen in recent times in terms of monetary policy, as well as a phase that brought the boundaries of policy effectiveness into particularly sharp contrast.

European bond market

Stock markets' performance was characterised by a high degree of volatility. Thanks to strong stimulus from central banks, equity markets posted significant gains until April, before various burdens started to make themselves felt as the year progressed. In addition to the threat of a Grexit, the situation was further compounded by volatility in Chinese stock markets, the spectre of an interest rate turnaround in the USA and weakened commodities markets and emerging economies. With the support of the central banks, such as the announcement by the ECB in autumn 2014 that it intended to loosen its strict monetary policy, it was possible to counter these influences and fend off any long-term damage. However, it is clear that following years of strong growth, stock markets will continue to be buffeted by strong headwinds.







European equity markets

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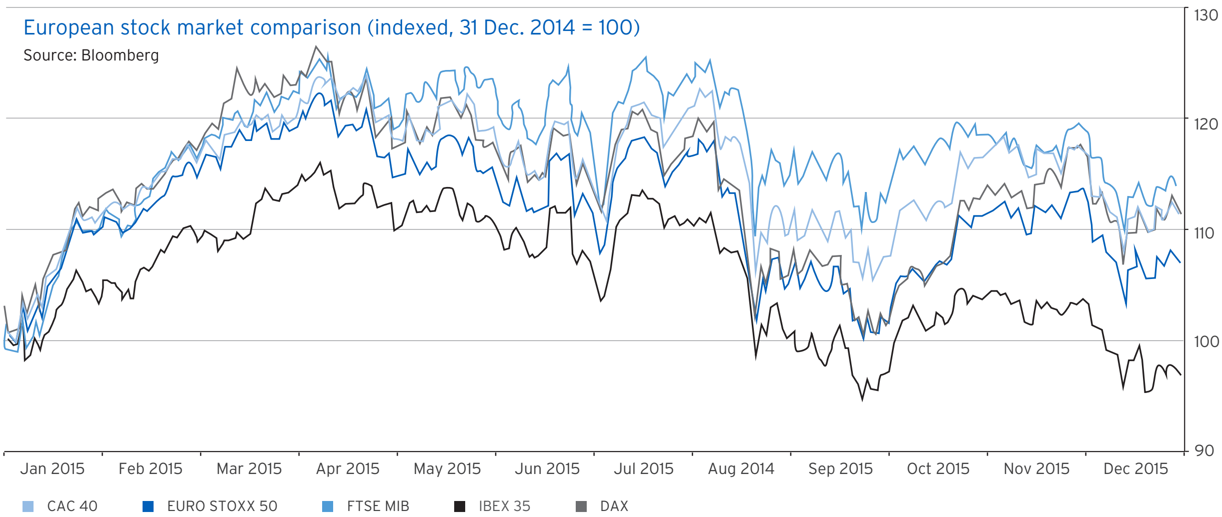


Economic trends in the HYPO NOE Group's core markets

AUSTRIA

The economic forecasts for Austria predicted that 2015 would be another year of very modest growth, with expansion at 0.8% (2014: 0.4%), meaning that Austria will remain below the eurozone and EU-28 averages of 1.3% and 1.8% respectively.

Visible signs of momentum are not expected to emerge until 2016 when growth will reach 1.4-1.7%.

Against the backdrop of a sluggish overall economy, the recovery was driven by stronger consumption and an upswing in EU manufacturing output. Additionally the current refugee crisis is stimulating public and private consumption. While it is expected that tax reforms will cut the comparatively high tax burden to some extent in 2016, measures aimed at reinvigorating the economy will be neutralised by the need to raise extra funding. It is also likely that private households will save around half of the additional income, meaning that the anticipated impact on demand will not take effect immediately.

The de-escalation of current geopolitical crises and the positive effect of the weak euro on exports, coupled with the burgeoning recovery in Austria's main trading partner, Germany, and a tangible improvement in investor confidence should be among the factors behind a long-term improvement in the economic climate. Additional investment in housing construction by Bundesimmobilien GmbH, the federal property company, is also expected, which will stimulate the economy from 2017 onwards.

In addition to the faltering economic recovery of recent years, the recalculation of sovereign debt (in line with the European System of Accounts), in particular as a result of including off-balance-sheet/implicit liabilities, Heta Asset Resolution AG (Heta)/KA Finanz AG and the resulting increase in the government debt ratio from 74.5% to a provisional figure of 85.3% as at 30 September 2015 was another setback for politicians arguing in favour of further stimulus programmes. A reversal of the upward trend in government debt is not expected until late 2016 and will be heavily influenced by the resolution of the HETA situation. The budget deficit for 2016 is estimated at around 1.6%.

FEDERAL STATES

The Austrian federal states reported growth of between 0% and 2.4% in 2015. Economic growth was 0.2% in Lower Austria and 0.1% in Vienna. Due to strong export demand, the more industrial states – Styria, Upper Austria and Vorarlberg – had higher growth rates. A welcome development is the trend towards debt reduction by the Austrian state governments, with aggregate debt including guarantees down by almost 16% since 2011. Lower Austria, Carinthia, Vienna and Burgenland stood out for their rapid rundown of debt; in the case of Lower Austria and Carinthia this reflected unscheduled repayments. Another positive trend is the reduction in guarantees (including bank guarantees) by Austrian Federal states from an aggregated EUR 75bn to around EUR 55bn, a decline of around 27%. This was once again primarily attributable to the maturity of state government-backed bonds issued by Landes-Hypothekenbanken (provincial mortgage banks).

In terms of assets Vienna, followed by Lower Austria, leads the way in a comparison of the Austria federal states. At federal state level, total assets amount to EUR 86.3bn (28.1% of national GDP).

Lower Austria and Vienna – the HYPO NOE Group's core markets – are the Austrian federal states with the highest forecast population growth up to 2075, and still boast the highest average gross income among employed persons. Lower Austria moved into first place in terms of purchasing power per inhabitant in 2013, a position it has successfully defended ever since. The state of Lower Austria is followed by Salzburg and Vienna. Purchasing power in these three federal states exceeded EUR 20,000 per inhabitant for the first time. Lower Austria and Vienna were again the states with the highest shares of federal GDP, at 16% and 26% respectively.

DANUBE REGION

The countries of the HYPO NOE Group's extended core market again recorded growth rates above the EU average in 2015. Growth accelerated significantly year-on-year in all the countries of the Danube region apart from Hungary. In 2015 the Czech Republic recorded the fastest growth in the region, at a forecast 4.4%, ahead of Romania at 3.5%. These countries overtook the previous year's leader, Hungary, which also posted a very strong growth performance at 2.8%. The average rate of growth in the region is seen as reaching 3.3% in 2015. Although growth in Bulgaria was slightly below the regional average, the country's economy is clearly trending upwards.

According to the latest forecasts, regional growth for 2016 is expected to fall marginally short of the level reached in 2015. Bulgaria and Romania are the only exceptions, with growth for 2016 expected to outpace the previous year's level. The effects on the Danube region of the current conflict between Russia and Ukraine largely depend on the structure of the individual countries' trade structures and energy resources. Of the countries served by the HYPO NOE Group, Bulgaria, Hungary and Slovakia are particularly dependent on Russian trade and energy supplies.

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

Consumer confidence is rallying throughout the Danube region, particularly in the Czech Republic, Poland and Slovakia. This economic upturn was given additional impetus by the extension of the drawdown period for the 2007-2013 EU support programmes until the end of 2015 and higher national co-financing contributions.

The 2014-2020 regional development programme for the Danube region (including the Czech Republic and Poland) amounts to around 12% of total regional GDP, or EUR 167bn. All of the countries in the region are net recipients of EU funding. EU support programmes account for the lion's share of public investment in the Danube region, making up between 40% and 90% of national spending.

Unemployment in the region ranges from 6.3% in Romania to 11.6% in Slovakia, and has declined since the beginning of the year. Unemployment is seen decreasing slightly over the next few years as the economy gathers pace.

The countries will meet all of the Maastricht criteria for budget deficits and government debt in 2015 according to current forecasts, with the exception of Hungary, which has a ratio of government debt to national GDP of 76%.

Banking sector trends in the euro area and CEE

Since the financial market crisis, European financial institutions have placed a particularly strong emphasis on improving capitalisation in the wake of more stringent regulations. The single resolution mechanism coupled with the single supervisory mechanism, which entered into force on 4 November 2014, and a uniform deposit guarantee scheme are at the heart of the European banking union. The start date for allocations to the European resolution fund is 1 January 2016, with banks committed to depositing a total of EUR 55bn by 2024. Plans for an EU-wide mutual deposit guarantee scheme have been shelved for the time being in the face of resistance from member states. The bail-in rules for creditors, which will enter into force across the EU by 1 January 2016 at the latest, have been in place in Germany, Austria and the United Kingdom since the start of 2015. The introduction of regulations on total loss absorbing capacity (TLAC) and the minimum requirement for own funds and eligible liabilities (MREL) present a further challenge for banks. To ensure that banks fulfil these obligations, the bank recovery and resolution directive (BRRD) has laid out minimum requirements. Individual MREL ratios for all European banks are due to be finalised in 2016. In addition to these measures, the Financial Stability Board that represents the 20 leading industrial and emerging companies (G20) issued a new regulatory TLAC indicator for 30 global systemically important banks. This calls for additional capital buffers of at least 16% of RWAs from 2019 rising to at least 18% by 2022. On top of this, the minimum TLAC must amount to at least 6% of the Basel III leverage ratio denominator by 2019 and at least 6.75% by January 2022.

The banking sector in the Danube region is still in a process of change. Lending activity grew in the second half as a result of financing and investment for corporate customers, with the overall increase forecast at between 4% and 6%. This trend is also fuelled significantly by the year-on-year decline in interest rates in all countries in the Danube region. In some regions, mortgage lending to private households outperformed lending for corporate customers. European banks in the Danube region are still faced with the need to recognise higher impairment losses than other European banks. Aggregated non-performing loan (NPL) ratios range from 11-13% in Hungary, Bulgaria and Romania, which represents a significant improvement on the previous reporting period, particularly in light of the targeted portfolio streamlining measures by the local banking sector (for example, the NPL ratio in Romania fell from around 30% in 2013 to about 12% in 2015). Slovakia, the Czech Republic and Poland still have comparatively low NPL ratios of 5-7%. Refinancing activities in Eastern Europe reflect a positive trend, with local banks' foreign liabilities steadily being replaced by domestic refinancing, for example in the form of savings deposits.

In spite of increased profitability and capitalisation, certain threats to financial market stability persist, such as relatively low domestic yields, high but more broadly diversified exposure than in Central, Eastern and Southeastern Europe (CESEE) and increased concentration of profits on a smaller number of CESEE countries. Although capital ratios have risen steadily on the Austrian banking market over the past few years, they still lag behind those of comparable banks elsewhere in the EU. In September 2015 the Financial Market Stability Board issued a call for the use of macroprudential capital buffers. On 22 December 2015 the Financial Market Authority (FMA) prescribed systemic risk buffers for 12 Austrian banks, which involves building up a permanent mandatory reserve of hard core capital equal to 2.5% of risk-weighted assets by 2019. The regulation enters into force in January 2016. In the first half of 2015 Austrian banks' consolidated profit for the year amounted to EUR 2.6bn, up by EUR 3.2bn on the same period a year earlier. This increase resulted primarily from the rise in net interest income, higher net fee and commission income and a significant reduction in impairment losses and depreciation. While credit risk provisions declined to EUR 1.9bn, tensions surrounding loan quality persisted. Another positive effect is that the losses from the restructured Hypo Alpe Adria Bank International AG are not included in these results. At EUR 600m, the financial stability contribution weighed heavily on Austrian banks in 2015. In 2015 the country's banking market was negatively impacted by the events surrounding the winding up of Heta, the successor institution of Hypo Alpe Adria Bank International AG, which led to the application of the BRRD for the first time in Europe. A moratorium imposed by the FMA on 1 March 2015 suspended HETA's repayment of liabilities to its creditors until 31 May 2016 in accordance with the Bundesgesetz über die Sanierung und Abwicklung von Banken (Federal Act on the Recovery and Resolution of Banks), to allow it time to draw up a winding-up plan that matches the aims of the new regime. Another development was the suspension of the Bundesgesetz über Sanierungsmassnahmen für die Hypo Alpe Adria Bank International AG (Act on Restructuring Measures for Hypo Alpe Adria Bank International AG) by the Austrian Constitutional Court in July 2015, which would have voided liabilities amounting to EUR 1.6bn. These events served to unsettle investors to a certain extent, which was reflected in a drop in issuing activities by Austrian banks in the first quarter of 2015.

The Austrian banking market is still going through a period of upheaval, with restructuring activities proceeding at a slower pace than elsewhere in Europe. The conflict between Russia and Ukraine marked a turning point in Austrian banks' involvement in Eastern Europe. Following the restructuring of the Volksbankenverbund's regional operations and the decision to reassign UniCredit Bank Austria AG's Eastern European operations to the Italian parent company, only two Austrian banks will have extensive Central and Eastern European networks in 2016. Austria's major banks are currently working to restructure their foreign subsidiaries. A withdrawal from foreign markets would lead to further concentration in the nation's saturated banking sector. Austria's banking landscape, and the retail segment in particular, is on the cusp of a significant period of restructuring. UniCredit Bank Austria AG's announcement of its decision to scale back its retail banking activities – which is yet to be implemented – signalled the start of significant restructuring of the Austrian branch network. Today Austria still has one of the most concentrated banking sectors anywhere in Europe.

FINANCIAL REVIEW

Financial performance in 2015

EARNINGS (IFRS)

Profit attributable to owners of the parent was higher year on year, at EUR 6.2m (2014: loss of EUR 31.3m). As reported in the previous year, the loss in 2014 was the result of significant impairments recognised in relation to Heta Asset Resolution AG (Heta) bonds in light of the debt repayment moratorium imposed by the FMA on 1 March 2015. Earnings performance in 2015 was shaped by consistently high net interest income and gains on credit risk provisions. Statutory contributions to a deposit insurance fund and a resolution fund, which became mandatory during the reporting period, as well as the increased financial stability contribution all weighed on profit. Substantial income tax expenses, which were mainly due to non-deductible expenses in increased tax liabilities and to non-recognition of deferred tax expenses, and the additional impairment losses recognised on Heta bonds also had negative effects. The Gruppe Bank, Landesbank and Leasing segments delivered significant pre-tax profits for the period, although the Other segment reported a small loss before tax.

Group net interest income was EUR 0.9m up on the like period of 2014, at EUR 130.8m (2014: EUR 129.9m).

The low cost of risk and intensive workout management resulted in net gains on credit provisions of EUR 1.2m (2014: net loss of EUR 6.7m), a year-on-year increase of EUR 7.9m.

Net trading income climbed to EUR 3.2m (2014: net loss of EUR 1.8m), mainly driven by the fair value measurement of derivatives used as economic hedges and the measurement of currency forward contracts.

Administrative expenses rose by 1.6% compared with a year earlier, to EUR 129.1m (2014: EUR 127.1m). This was principally due to the new statutory contributions to the deposit insurance and resolution funds, which amounted to EUR 6.6m (2014: nil), as well as an increase in the financial stability contribution, which went up from EUR 12.9m in 2014 to EUR 14.7m in the reporting period. A reduction of EUR 3.2m in staff costs and of EUR 1.9 in depreciation, amortisation and impairment had a positive effect on earnings.

Net other operating income was EUR 25.0m (2014: EUR 23.7m). The change was mainly due to debt buyback gains and measurement gains on foreign currency cash transactions that were not hedging transactions. Gains on the measurement of currency forward contracts used to hedge cash transactions in foreign currencies are reported under net trading income, as in previous years. An expense of EUR 10.9m was recognised in relation to a debtor warrant.

The net losses on investments accounted for using the equity method was higher, at EUR 4.7m (2014: EUR 2.5m), primarily as a result of the negative valuation of the non-profit EWU subgroup (Gruppe Bank segment).

Further impairments of Heta bonds were recognised in the period under review, in addition to those reported in the fourth quarter of 2014. This was the main reason behind the net loss on available-for-sale financial assets of EUR 27.8m (2014: net loss of EUR 65.0m).

Net losses on hedges fell from EUR 2.4m in 2014 to EUR 1.9m in the reporting period.

Profit before tax amounted to EUR 11.7m, an increase of EUR 51.5m on the same period a year earlier (2014: loss of EUR 39.8m).

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

		2015	2014	2013	2012
Return on equity before tax	Profit or loss for the year before tax/ave. equity	2.0%	-7.1%	14.3%	6.5%
Return on equity (ROE) before tax (operating)	ROE before tax excl. financial stability contribution, contributions to resolution and deposit insurance funds, and regulatory costs/ave. equity adjusted for financial stability contribution, contributions to resolution and deposit insurance funds, and regulatory costs	5.7%	-4.7%	15.4%	7.9%
Return on equity after tax	Profit or loss for the year/ave. equity	1.10%	-5.5%	10.2%	4.9%
Cost/income ratio	Operating expenses/operating income*	92.54%	135.2%	59.3%	67.6%
Cost/income ratio (operating)	Cost/income ratio excl. financial stability contribution, contributions to resolution and deposit insurance funds, and regulatory costs	77.0%	121.1%	56.0%	63.4%
Risk/earnings ratio	Credit provisions/net interest income	-0.9%	5.3%	4.1%	15.6%

* Operating expenses include general administrative expenses, as specified in Note 5.6 Administrative expenses
Operating income comprises net interest income, net fee and commission income, net trading income, net other operating income, net gains or losses on investments accounted for using the equity method, net gains or losses on financial assets, net gains or losses on hedges and net gains or losses on other financial investments

ASSETS AND LIABILITIES (IFRS)

The HYPO NOE Group's total assets fell by 0.2% year-on-year to EUR 15.9bn as at 31 December 2015, mainly due to an increase in loans and advances to customers of EUR 0.4bn, and falls of EUR 0.2bn in the positive fair value of hedges and of EUR 0.1bn in available-for-sale financial assets.

On the equity and liabilities side, deposits from customers rose by EUR 1.0bn. There were declines of EUR 0.4bn in both deposits from banks and debts evidenced by certificates, and of EUR 0.1bn in the negative fair value of hedges.

CHANGES IN EQUITY (IFRS)

IFRS consolidated equity including non-controlling interests as at 31 December 2015 was EUR 581.5m, an increase of EUR 10.8m on year-end 2014. This was mainly due to the profit attributable to owners of the parent and the improvement in the available-for-sale reserve for remeasurement of financial assets to fair value.

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

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

Consolidated eligible capital in accordance with the CRR was EUR 597.7m as at 31 December 2015 (31 Dec. 2014: EUR 614.8m). Surplus capital as at 31 December 2015 was EUR 282.2m (31 Dec. 2014: EUR 283.6m), compared to a capital requirement of EUR 315.5m (31 Dec. 2014: EUR 331.2m). The Tier 1 capital ratio in accordance with Article 92(2)(b) CRR was 13.4% (31 Dec. 2014: 12.3%), and the equity ratio in accordance with Article 92(2)(c) CRR was 15.2% (31 Dec. 2014: 14.9%).

OPERATIONAL REVIEW

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

Gruppe Bank segment

The Group's parent company, HYPO NOE Gruppe Bank AG, is a regional bank, dedicated to promoting and underpinning the development of its home market, Lower Austria and Vienna. With the State of Lower Austria as its sole shareholder, the Group enjoys stable and reliable ownership. HYPO NOE Gruppe Bank AG concentrates on the larger customer segments, with a focu on funding social and traditional hard infrastructure for local authorities, regional governments and other territorial authorities, as well as corporate, project and real estate finance, and providing treasury solutions for clients in Austria and the wider Danube region. Thanks to its extensive experience and solid market position, the Group is a dependable partner for clients requiring such services.

Besides its core Austrian market – the states of Lower Austria and Vienna – HYPO NOE Gruppe Bank AG conducts activities abroad, focused on the Danube region. The latter comprises Germany, the Czech Republic, Slovakia, Poland, Hungary, Romania and Bulgaria. So as to deliver comprehensive customer service and risk assessment, the Bank has established representative offices in Bucharest, Budapest, Prague and Sofia.

The rating agency Standard & Poor's affirmed its A/A-1 issuer rating with a "stable" outlook on 4 August 2015, attesting to HYPO NOE Gruppe Bank AG's excellent creditworthiness. This action reflected amongst other factors the strong capital position, stability and security conferred by the Bank's sole owner, the Lower Austrian state government. It reasserted the agency's assessment that the increased risks in the Austrian banking industry caused by the Heta debt moratorium did not negatively impact the creditworthiness of the HYPO NOE Group. However, Moody's downgraded its ratings on the Bank's mortgage and public sector covered bonds from Aaa to Aa1, owing to a change in rating methodology and the potential direct and indirect repercussions of the Heta moratorium.

Since 2015 the Bank's sustainability-related initiatives have been managed by the Executive Board Affairs and Group General Secretariat unit. The Group sustainability report is posted on the corporate website at www.hyponoe.at.

PUBLIC FINANCE

The Public Finance Department is a strong partner for local and regional authorities, public agencies and infrastructure companies. In 2015 the department's efforts were mainly directed towards Lower Austria and the other eastern Austrian federal states, where activities aimed at enterprises linked to the federal and state governments were intensified. In addition to serving Austrian clients and in line with the Bank's Danube region strategy, public finance solutions were directly marketed to national, regional and metropolitan governments across the Danube region, on a highly selective basis.

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

Growing public debt and the budget constraints facing state governments and local authorities have led to rising demand for public-private partnerships (PPPs) and innovative financing solutions for construction projects. During the reporting period a number of projects in the education sector were implemented by HYPO NOE Leasing GmbH. These included the expansion of and alterations to the Bundesschulzentrum Eisenstadt, a multi-school campus in Burgenland's capital (BHAK, BHAS and HTBLA).

The public finance provided in 2015 mostly related to investments in water supply and wastewater disposal infrastructure, as well as the rehabilitation of educational and administrative buildings. Stand-outs among the projects financed were a wastewater treatment plant expansion, and alterations to kindergartens and new secondary schools.

REAL ESTATE FINANCE

The Real Estate Finance department specialises in real estate finance and real estate project finance. Its key strengths are the wide range of products it offers, its ability to structure bespoke finance solutions and the expertise of the department's staff.

In the core Austrian and German markets, 2015 was a year of exceptionally strong competition on lending terms and conditions for major real estate projects, as was the previous year. A number of early repayments were again recorded, mainly as a result of early refinancing or property disposals by customers. With analysts forecasting rising loan-to-value ratios in Germany, both the elasticity of lending banks' demand for risk and their margins were under heavy pressure. In spite of these difficult conditions Real Estate Finance is still making a significant contribution to earnings.

Demand for virtually all real estate categories, and especially inner city rental apartment buildings, remained at high levels because of low interest rates and unprecedented weak returns on alternative investments. Foreign investors continued to find the German commercial and residential property markets – particularly in the new federal states – among the most attractive in Europe.

Going forward into 2016, the department's main preoccupation will again be its core markets – Austria, Germany and the neighbouring EU member states in Central and Eastern Europe. It will keep a close watch on macroeconomic and regional property trends in its target markets outside Austria. The volume of transactions involving commercial buildings is expected to hold at last year's levels in 2016. The main concerns will be stabilising earnings potential and optimising the loan portfolio by selectively seeking new customers among institutional investors, funds and property developers.

The department's business model is based on providing financing for office space, shopping centres, retail parks, housing, logistics facilities and city hotels, on relatively conservative lending terms. HYPO NOE Gruppe Bank AG and its long established business partners concentrate particularly on selected, highly adaptable properties.

CORPORATE AND PROJECT FINANCE

As the bank for business in its core market, HYPO NOE Gruppe Bank AG is especially strongly rooted in Lower Austria. It is known for its ability to tackle demanding issues, and its willingness to take the long view and put customers' interests first. This clear positioning has made the Corporate and Project Finance department a partner of preference for companies in Lower Austria and beyond. In its roles as a lender and as a deposit taker, customers appreciate HYPO NOE Gruppe Bank AG's signature personal service, carefully chosen product range and problem-solving expertise. These advantages extend to specialised situations such as acquisitions and successions.

Generating long-term customer relationships stands at the centre of the department's activities, as does refining products in cooperation with existing clients. This approach brought Corporate and Project Finance outstanding success in 2015 – notably with time deposits – providing impressive proof of companies' confidence in the Bank. The department registered strong growth in the number of bilateral transactions with corporate customers and in business from existing clients. HYPO NOE Gruppe Bank AG reaped the benefits of its policy of positioning itself as a customer- and solution-driven bank that offers short decision-making processes, like those required by acquisitions or major investments at home or abroad. When it came to these forms of finance the Bank outclassed the kind of competitors that are unable to devote sufficient attention to the needs of the larger medium-sized companies, or to partner them competently and flexibly.

Businesses remained extremely cautious about investing in 2015. However, HYPO NOE Gruppe Bank AG benefited from its good standing with many business customers and a significant increase in the investment of the cash reserves that they hold with it. Due to stricter regulatory requirements and the resultant growing difficulties faced by business banks in presenting very long maturities in their accounts, Corporate and Project Finance is increasingly concentrating on medium-term lending, especially in the corporate area. Relying on its expertise and visibility in the marketplace, in areas of business with the very long maturities characteristic of project finance the department is transitioning towards acting primarily as an arranger of comprehensive financing packages, and placing long-term tranches with institutional investors such as insurance companies. The latter enjoy a more favourable regulatory environment in connection with such assets.

The department worked to enhance its understanding of government subsidies, so as to position itself still more clearly as a one-stop shop for finance with a subsidy component. In tandem with HYPO NOE Landesbank it set up an advice centre to provide customers with expert support.

Corporate and Project Finance continued to pursue business selectively in its target markets in the Danube region, making excellent progress. Successful follow-up projects helped nurture the department's customer relationships. As regards foreign customers, the Bank did well from targeting incoming business in Austria. The growth in bilateral business won from German clients was especially encouraging, and the department created a strong platform for future business of all kinds, from investments to deposits.

RELIGIOUS COMMUNITIES, INTEREST GROUPS AND AGRICULTURE

In its second year of operation the Religious Communities, Interest Groups and Agriculture Department continued to develop as a centre of expertise in regional and social infrastructure finance, and an investment specialist with a conservative approach.

The main highlights of its product portfolio were:

- Finance for social and public facilities, such as care and social centres, hospitals and administrative buildings
- Finance for church renovation and revitalisation projects
- Agribusiness (especially food processing and retailing)
- Ethical and sustainable investment
- Investments based on top rated mortgage and public sector covered bonds
- Money market investments

Last year saw another marked increase in money market investors' deposits, reflecting the excellent ratings that HYPO NOE Gruppe Bank AG continued to boast. The design of fund management mandates in cooperation with leading sustainability specialists made it possible for the Bank to respond to more invitations to tender for investment services contracts from customers with high sustainability and ethical standards for their assets.

The segment also succeeded in financing construction projects in the greater Vienna area and Lower Austria for organisations belonging to the Religious Communities, Interest Groups and Agriculture Department's target customer group. A large project funded by HYPO NOE Gruppe Bank AG was the Stephansheim in Horn, handed over in February.

In 2015 the department again assisted numerous church and social initiatives and enterprises. These included the renovation of the Sonntagberg Basilica – a landmark of the Mostviertel region – as well as contributions to campaigns and events held by dioceses and abbeys. The HYPO NOE Group's support for social welfare organisations and charities demonstrates its empathy for these non-profit customer segments.

The department is continuing to set its sights on making HYPO NOE Gruppe Bank AG one of the top three players in the Lower Austrian church and interest group market segment, offering financial product and service know-how drawn from across the Group to selected target groups, with a particular focus on the investment and real estate areas.

CAPITAL MARKETS

Treasury

During the reporting period the central banks maintained their expansionary stance, but the positive impact was limited due to the fact that interest rates were already very low. Due to the large number of new issues and the relatively tight spreads, Treasury followed a somewhat more restrictive investment policy, and only purchased the highly liquid assets that regulatory requirements obliged the Bank to hold. This enabled the department to make an excellent contribution to earnings, despite operating in a highly volatile environment with a tendency towards slightly wider spreads at the end of the year. As in previous years, the main investment focus was on liquid government bonds, and on covered bonds from Western and North European issuers, as well as CEE sovereigns with excellent ratings. This strategy will remain in place in 2016.

ALM

The Asset Liability Management (ALM) unit seeks to use the Bank's interest rate risk position to strengthen its financial structure, stabilise net interest income and optimise the risk/earnings ratio. Close monitoring ensures that the unit responds rapidly to market movements as they unfold. It is looking to use long-term, rolling investment of equity capital to stabilise interest income. In the interests of effective interest rate management, derivative financial instruments are also employed, primarily for hedging purposes.

Funding

The first two months of 2015 were marked by historically low credit spreads on covered and senior unsecured bonds. Austrian covered bonds put in a strikingly strong performance, and yields almost caught up with those on their German counterparts.

The Bank used the positive market environment to showcase itself as an issuer in new regional markets, mounting a large-scale roadshow offensive. However, the positive market climate previously enjoyed by Austrian bank bonds was severely affected by the Heta moratorium imposed on 1 March 2015.

The next few months were a period of high volatility, especially for Austrian issuers, and there was a marked widening of credit spreads. It was possible to fully exploit market opportunities to redeem debt early at attractive spreads, and thus widen the maturity profile. Events were also dictated by the Greek crisis, which for a time came close to bringing international markets to a complete standstill.

In the second half of the year the markets were slightly calmer, and HYPO NOE Gruppe Bank AG used a window of opportunity to launch a sub-benchmark, five-year mortgage-backed covered bond issue, priced at 15 bps over mid-swaps. In addition, thanks to the Bank's good credit rating, Treasury was able to raise all of the planned senior unsecured funding.

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

Investor Relations

Transparent and continuous communication with investors is a central concern for HYPO NOE Gruppe Bank AG. As in previous years, Management Board members provided information on the Group's financial performance in 2014 and its plans for the future during an earnings conference call. Afterwards there was also a chance to speak to the board face to face at the investors' luncheon, held in the Palais Niederösterreich. The combined relaunch of the Group's corporate website took place during the third quarter of 2015.

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

INSTITUTIONAL CUSTOMERS

Close cooperation with institutional customers in Europe and increasingly in selected overseas countries is pivotal to HYPO NOE Gruppe Bank AG's business model. This customer group comprises banks, insurance companies, pension funds, utilities and investment companies.

In its role as an issuer of covered bonds, bonded loans and senior unsecured bonds HYPO NOE Gruppe Bank AG enjoys the advantages of a strong and long-established investor base. In order to keep a high profile on the capital markets, in 2015 high priority was given to investor relations activities including roadshows. Great importance is also attached to maintaining an active dialogue with correspondent banks. Among the issues discussed is the changed operating environment in the wake of Basel III.

PUBLIC LOAN MANAGEMENT

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

The State of Lower Austria has made HYPO NOE Gruppe Bank AG the point of contact for queries from subsidy beneficiaries regarding account administration, account balances and repayments. The Group provides cheap and efficient loan management services to Lower Austrian owner-builders and the province's numerous housing cooperatives, which are also entitled to apply for such loans. Besides its loan management function, HYPO NOE Gruppe Bank AG handles the accounting for many Lower Austrian state government grants, such as those to schools and kindergartens. The assistance provided by the Bank in connection with a variety of state government home building transactions includes preparation of detailed breakdowns of the existing loan portfolio and generating cumulative analyses of the payment flows from individual loan tranches – as well as deviations from the original repayment plans – as part of regular reporting to investors.

The number of loans handled on behalf of the Lower Austrian state government is constantly growing, and the Bank has over 313,000 direct loans, totalling more than EUR 6.0bn, under management for the state government. Subsidised home loans account for the lion's share of this total, at some EUR 5.6bn.

Housing subsidy recipients can access information on their subsidised home loans and tax office confirmations for the past four years, and carry out standard home loan subsidy processes, in a manner similar to online banking.

In recent years HYPO NOE Gruppe Bank AG has given the Lower Austrian state government extensive assistance with the technical and organisational implementation of the large-scale home loan subsidy scheme, and now also acts as a point of contact for questions about payment processing issues from the various banks involved in disbursements. Housing cooperatives are still served by their established contact persons at the Bank. Full-scale operation of the new high-volume Lower Austrian housing subsidy system began in 2015; this has involved processing six subsidy tranches to date.

PARTICIPATIONS

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

In its capacity as a shareholder representative, the Group urges, guides and assists investees' strategic business development. Consistent efforts are made to maintain a good overview of the equity investment portfolio in terms of risk management, financial control and governance.

The following portfolio restructuring events took place in 2015.

In September 2014 the Bank's management bodies decided to exercise the put option on the 25% holding in HYPO Capital Management AG on the last day of that month, with retroactive effect from 31 March 2014. The transaction was closed on 11 March 2015, on expiry of the statutory waiting/objection period.

On 10 July HYPO NOE Gruppe Bank AG signed an agreement selling its 2.5% interest in Victoria-Volksbanken Pensionskassen AG to BONUS Pensionskassen Aktiengesellschaft. The transaction was completed on 21 December 2015. Besides HYPO NOE Gruppe Bank AG, immigon portfolioabbau ag, ERGO Austria International AG and ERGO Versicherung Aktiengesellschaft, as well as Schoellerbank Aktiengesellschaft sold their holdings in the pension fund, meaning that BONUS Pensionskassen is now the sole owner of Victoria-Volksbanken Pensionskassen AG.

On 30 June 2015 HYPO NOE Landesbank and N.vest Unternehmensfinanzierungen des Landes Niederösterreich GmbH (N.vest) signed an agreement under which Landesbank divested half of its holding in NÖ Bürgschaften und Beteiligungen GmbH (NÖBEG) to N.vest. Landesbank now owns 5.82% of NÖBEG.

SRE Sziget Center Kft was liquidated on 11 March 2015 as the project planned for this company was not implemented.

In the interests of further optimisation of the Group's property portfolio, on 21 November 2015 NOE Immobilien Development AG was registered as a wholly owned subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH. High priority is given to packaging the main properties in holding companies so as to create an investor-friendly structure. The business model is based on attractive development projects, with a clear emphasis on housing construction, and on achieving solid and sustainable returns.

On 4 December 2015 Quadrant Projektentwicklungsgesellschaft m.b.H was formed as a wholly owned subsidiary of NOE Immobilien Development AG. This company is to be used to implement property projects in St. Pölten.

As of 14 December 2015 HYPO LEASING DECUS Grundstücksvermietungs Gesellschaft m.b.H. was completely absorbed by HYPO NOE Immobilien Beteiligungsholding GmbH, by way of a merger agreement. HYPO LEASING DECUS Grundstückvermietungs Gesellschaft m.b.H. was deregistered on 28 December.

With effect from 30 June 2015 HYPO Niederösterreichischen Liegenschaft GmbH divested its shares in Horner Kommunalgesellschaft mbH to Horn municipality. With effect from 17 June 2015 HYPO Niederösterreichischen Liegenschaft GmbH transferred its shares in Melker Kommunalimmobilienverwaltungs Gesellschaft mbH to Melker Grundstücksges.m.b.H.

On 20 April 2015 HYPO NOE First Facility GmbH, then the 51% shareholder in First Facility d.o.o., transferred its interest in that company to the other shareholder, Spiegelfeld International d.o.o. Beograd; however, the latter remains a joint venture.

Foreign branches and representative offices

HYPO NOE Gruppe Bank AG had no foreign branches in 2015, but operated representative offices in Bucharest, Romania; Budapest, Hungary; Prague, Czech Republic; and Sofia, Bulgaria.

Branch offices

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

Landesbank segment

HYPO NOE LANDESBANK AG

HYPO NOE Landesbank AG is responsible for the HYPO NOE Group's retail banking business, and also provides financing for large housing construction projects (with a focus on non-profit housing associations) and for small and medium-sized enterprises. A total of 30 branches in nine regions deliver outstanding service to private, self-employed and business customers in the Group's core market of Lower Austria and Vienna. The bank has defined "finance and housing", "saving and investment" and "accounts and cards" as strategic areas in terms of the needs that it aims to meet.

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

As in 2014, retail banks were faced with a very challenging interest rate landscape. Although interest rates remained extremely low, HYPO NOE Landesbank succeeded in increasing operating income year on year. The Bank set itself the ambitious target of continuing to grow despite the adverse business environment. Hard work, packages of special offers and a successful marketing effort enabled it to hit this target in 2015.

The Landesbank segment performed particularly strongly in the retail lending area, recording net growth in the volume of private sector home loans despite a testing market environment.

HYPO NOE Landesbank AG also bucked the market trend by achieving growth in primary funding, thanks to its good regional market positioning and excellent credit rating.

Lending (especially home loans), deposits and the number of customers all rose, contrary to industry trends, and in some cases did so sharply. The biggest year-on-year gain was in fee and commission income.

The branches remain the key sales channel in spite of the Bank's multi-channel approach. The new regional structure introduced on 1 October 2014 is reaping rewards. The aims of this initiative include exploiting the potential for new business with existing and new customers more effectively, rolling out new multi-channel technologies, and strengthening branch-based distribution.

Some changes were made to the branch network in order to better serve and develop local markets. The HYPO NOE Landesbank AG branch that had been located in Wiener Gasse in Bruck an der Leitha since 2005 was closed on 15 October 2015, and moved to Schwechat. The Neunkirchen branch moved out of its original town centre location and into the newly built state hospital.

A cooperation with the Lower Austrian state exhibition at all 30 branches reflected the belief of the "bank for the people of Lower Austria" in operating where its customers live. As part of this campaign the Bank offered a range of promotional banking products, billed as "regional, genuine and traditional". Among these were special home loans on attractive terms and conditions, and the Lower Austria Savings Account, which has played a major part in winning new customers and in the recent growth in deposits. The emphasis on Lower Austria is intended to differentiate the brand still more clearly from the competition, and help build a positive image.

A customer acquisition campaign targeted at small and medium-sized enterprises (SMEs) in Lower Austria and Vienna, similar to those mounted in recent years, drove further growth in the business customer base in 2015. The bank also held on to its traditionally large share of the market segment represented by the main housing developers, despite changes in the business environment.

However, due to the profitability of this area of banking, further intense competition for business from these companies, and small and medium-sized builders, is expected.

Frequent optimisation of the product range, and improvements to internal processes – such as reorganisation of the lending process – are aimed at further enhancing the quality of HYPO NOE Landesbank's services.

An intense, customer-focused drive to tidy up the credit portfolio again brought a significant reduction in the number of foreign currency loans – especially those denominated in Swiss francs. Active loan portfolio management also resulted in a big reduction in loan loss provisions.

Leasing segment

HYPO NOE LEASING GMBH

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

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

In response to the increased demand for financing compatible with the Maastricht criteria – especially PPP models – HYPO NOE Leasing GmbH has worked hard to drive the development of such products. With the trend towards PPP set to continue, this is likely to become a key line of business before long. It is particularly encouraging that such projects made a significant contribution to earnings in 2015.

Despite the persistently difficult business conditions – notably low interest rates – the lending volume achieved was highly satisfactory.

Overall, HYPO NOE Leasing GmbH – like the entire financial sector – is undergoing an extended period of change. The company's focus on complex finance arrangements for the public sector puts it in a good position.

Other segment

HYPO NOE IMMOBILIEN BETEILIGUNGSHOLDING GMBH

Since 2015 the HYPO NOE Group's real estate activities, comprising HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH, have come under HYPO NOE Immobilien Beteiligungsholding GmbH. In line with the primary goal of providing a one-stop shop for the entire real estate management value chain, the holding company brings together facility and property management, real estate sales and brokerage services, cross-selling functions, project development and management, and transaction and asset management.

The registration on 21 November 2015 of NOE Immobilien Development AG as a wholly owned subsidiary of HYPO NOE Immobilien Beteiligungsholding GmbH consolidated the Group's property portfolio with the aim of creating investor-friendly structures and facilitating the implementation of development projects currently at the planning stage, involving all of the services offered by the Group. The entire restructuring exercise should be completed by the end of the second quarter of 2016.

Among other things, it should promote cross-selling, enabling the exploitation of synergies across the entire Group. To this end, preparations are being made to launch a marketing offensive aimed at local authorities.

HYPO NOE REAL CONSULT GMBH

HYPO NOE Real Consult GmbH is active in property development, construction, management and marketing, and focuses on the Lower Austria and Vienna region. Working in close collaboration with the HYPO NOE Group's property experts, HYPO NOE Real Consult is a one-stop shop offering full-line property management through targeted bundling of core competencies. The company is mainly dedicated to property services and portfolios that are tailored to the needs of a changing society.

As part of the project development activities, in 2015 preparations were made to pitch for a wide variety of development projects in Lower Austria. These included successful development of the Karrée Korneuburg project and of the Stettnerweg housing construction project, also in Korneuburg; both involved consulting local people and councillors.

HYPO NOE Real Consult also made progress on major public sector projects in the construction management area. These included a number of expansion phases at the Institute of Science and Technology Austria (IST Austria) in Maria Gugging near Klosterneuburg, and the Galerie NÖ project in Krems.

The company again grew its share of the Lower Austrian local government market, and won a tender from Pöchlarn Council and Pöchlarner Kommunalimmobilienverwaltungs Gesellschaft GmbH, among others.

HYPO NOE FIRST FACILITY GMBH

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

The facility management sector remains highly segmented, and the market environment in which the company operates is characterised by increasing saturation and resultant predatory competition. While service FM businesses (e.g. those with their origins in the cleaning industry) are striving to break into the technical FM market, property management companies are increasingly including FM in their offerings. Further broadening its expertise and services for healthcare and public sector clients is a high priority for HYPO NOE First Facility.

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

While the business climate in Austria was very testing in 2015, the trading environment abroad was highly satisfactory, and the volume of business grew.

HUMAN RESOURCE MANAGEMENT

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

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

Human resources in 2015: facts and figures

At year-end 2015 the HYPO NOE Group had 940 employees (31 Dec. 2014: 913), 47 of whom were on parental leave (31 Dec. 2014: 38). The increase in head count was due to the short-term need for additional employees in key strategic areas, and for temporary replacements for the significantly increased number of staff on parental leave. A reduction of around 10% in the number of employees is planned in the medium term. The workforce comprised 532 male and 408 female staff (31 Dec. 2014: 509 male and 404 female). In terms of full-time equivalents (FTEs), there were 848.9 employees at year-end (31 Dec. 2014: 828.5). The head count falls to 807.9 FTE as at 31 December 2015 if non-active employees are excluded. Seven people were employed at the Group's representative offices abroad (2014: 7). Targeted applications management enabled the Group to quickly fill all vacancies during the period under review.

Organisational issues

A range of measures aimed at reducing costs and boosting efficiency were implemented in late 2015 in order to help the Bank overcome the current and future challenges facing the financial sector. The aim is also to raise awareness of costs.

Progress continued on restructuring the real estate business, which is designed to bring the set-up into line with current market requirements.

HR development

Human resource development is geared towards providing long-term support for the Group's strategy, and promoting the achievement of the Bank's strategic and operational targets. Another key consideration is ensuring that the Group complies with regulatory and other statutory requirements related to training and development.

Staff appraisals play a central role in HR development and are now in place across the Group. Regular, systematic and forward-looking discussions of employees' skills and interests are held with a view to agreeing specific targets for the job in question and in relation to the Company as a whole, which are included in a personal development agreement for each member of staff. The appraisals fed into a wide range of professional and personal development initiatives implemented in 2015. Performance reviews, which complement appraisals and had already been introduced for managers, were extended to cover all employees in 2015.

360° feedback sessions took place with the aim of promoting management development. Ten participants completed the Group's development programme for high potentials and experts, under which staff with outstanding potential explore and critically analyse their personal development opportunities and enhance their abilities. The graduates from the Best of Leadership programme for up-and-coming managers went on to enhance their managerial skills and reflect on their performance in practice as part of a follow-up workshop held in 2015.

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

Team retreats were also offered with a view to promoting teambuilding. In future, the focus will be on interdepartmental measures in the form of cooperation workshops.

HYPO NOE Landesbank AG introduced two new training programmes aimed at improving the service provided to retail customers.

Sustainability and human resource management

Employee health remained a leading priority in 2015, and seminars on the subject of body signals and stress were held once again. Staff from all over the Group also had the opportunity to take advantage of expert support on career-related matters (e.g. workplace coaching, conflict moderation and assistance for those switching career) and in stressful situations. Held every two years, sports medical examinations took place again in 2015.

The Group also drew up a series of measures aimed at reducing mental strain, based on a survey of sources of stress in the workplace. The measures were prepared in special health forums, with support from the Tut Gut initiative.

	HC			Ave. HC p.a.	FTE		
2015	**Total**	**m**	**w**	**Total**	**Total**	**m**	**w**
HYPO NOE Gruppe Bank AG	344	189	155	341.2	308.9	175.1	133.8
HYPO NOE Landesbank AG	362	184	178	353.2	323.9	180.4	143.5
HYPO NOE Real Consult GmbH	50	25	25	51.0	42.4	23.3	19.1
HYPO NOE Leasing GmbH	33	12	21	33.1	30.0	12.0	18.0
HYPO NOE Valuation & Advisory GmbH	3	2	1	3.2	3.0	2.0	1.0
HYPO NOE First Facility GmbH	138	114	24	135.3	132.1	111.2	20.8
HYPO NOE Versicherungsservice GmbH	3	2	1	3.0	2.5	2.0	0.5
HYPO NOE Immobilienmanagement GmbH	0	0	0	0	0	0	0
NÖ Hypo Beteiligungsholding GmbH	7	4	3	3.1	6.2	4.0	2.2
HYPO NOE Group	**940**	**532**	**408**	**922.9**	**848.9**	**510.0**	**338.9**

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

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

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

RISK REPORT

Starting with financial 2015, the objectives and methods of risk management and the explanations of material risks form part of the Notes (8.10 Risk management).

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (ICS)

Internal Audit

The importance of internal audit as part of a bank's internal control systems is reflected in the fact that it is enshrined in the Austrian Banking Act (section 42[1]).

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

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

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

In 2015, audits were carried out in accordance with the approved annual plan. Special audit assignments were also undertaken as requested by the Management Board. As a rule, the audit reports contain suggestions for improvements. Implementation of these recommendations is part of the quality assurance side of the auditing work.

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

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

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

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

Internal Control And Risk Management System (ICS) Relationship Between The ICS And The Accounting Process

In 2015 the ongoing development of methods for the identification, quantification, monitoring and management of operational risk, and of the ICS as a whole was once again a high priority.

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

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

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

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

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

The ICS encompasses accounting-related instructions and processes aimed at correct and appropriate recording of business transactions. This relates to:

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

them to automated checks. Group Accounting performs plausibility checks and prepares trial balances.

- All of the regular reports sent to the Austrian National Bank (OeNB) in accordance with the statutory reporting requirements for banks. These are forwarded via the computer centre, and Group Accounting performs plausibility checks and corrects any errors;
- IT security checks, which are one of the cornerstones of the internal control system. Sensitive activities are firewalled by taking a restrictive approach to IT authorisations.

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

All internal audit activities are subject to Group-wide standards based primarily on the Austrian Banking Act, the FMA Minimum Standards for Internal Auditing and international best practice. The independent internal audit function regularly reviews compliance by departments and other organisational units with the internal regulations. In 2015, the audits carried out in Accounting/Group Accounting focused on reporting, accounting procedures and fixed assets.

The Management Board ensures that Company-wide monitoring of the ICS is in place by laying the organisational groundwork (designation of those responsible, creation of appropriate information systems, etc.).

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

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

RESEARCH AND DEVELOPMENT

Business performance was again a major focus in 2015. Building on the successes of the previous year, the Group made progress in boosting customer satisfaction and loyalty. Increased cooperation between all subsidiaries reinforced the drive to increase cohesion within the Group.

The further development of the multi-channel strategy was also a priority, with the aim of integrating the Group's online and offline presence. The objective is to ensure that customers experience the brand as a whole rather than an individual channel. The online activities of all the subsidiaries were relaunched on a single HYPO NOE portal, as part of the Group's extended online and offline advisory processes. The Group's website was updated to reflect the new organisational set-up and incorporates the latest technological developments. The aim was to create a state-of-the-art, solution-driven product and service platform tailored to specific target groups. By treating clients as equal partners and providing corresponding levels of service, the site will enhance customer loyalty and support customer acquisition. In 2016 the portal will be updated to better meet customer needs, and new tools that support additional web-based business and communication processes will be introduced.

As part of the multi-channel strategy, in 2015 the Group laid the foundations for the comprehensive relaunch of its online banking service in the coming years. The first step will see the launch of a new mobile banking service in 2016. A user-friendly interface and ongoing introduction of new features will help customers to manage their personal finances more easily.

In 2015 various designs for a new service channel, video-based customer support, were evaluated. This is by no means a way of distancing ourselves from customers. On the contrary, personal service is the Group's most important channel of communication with its customers, and this will remain the case. The video-based support service is designed to give customers a new means of contacting a personal relationship manager in their home region. The main priority is to increase the level of support available to customers and to make operation as user-friendly as possible.

The HYPO NOE Group aims to continuously optimise its product range, and initial steps have been taken to streamline the product catalogue. This is intended to help reduce internal administrative costs and give customers a clearer and simpler overview of the products offered by the Group.

GROUP OUTLOOK FOR 2016

Economic environment

The range of problems facing the world economy – and the emerging economies and commodity markets in particular – and the difficult political situation both inside and outside Europe pose a severe challenge to economic growth. The extremely accommodative monetary policies pursued by central banks around the world in recent years have not achieved all of their intended aims. To complicate matters further, the zero-interest and negative-interest policies adopted by many central banks, in some cases coupled with unconventional measures, have had side effects such as distorting the prices of tangible assets and capital market products.

In spite of the difficult environment, economic research institutes remain cautiously optimistic about the prospects for the eurozone economy, and Austria in particular, in 2016. Following the recessions of 2008/2009 and 2012/2013, the eurozone is recovering. The tailwind provided by falling commodity prices may drop off in the course of 2016, but this could be offset by a slight improvement in investment and a continued rise in employment. Additional spending in response to the wave of refugees flooding into Western Europe could be another driver of growth in those countries that have accepted large numbers of asylum seekers. However, the contrasting steps taken by EU member states in addressing the influx of refugees could spark a political explosion. Overall, the EU is now probably in the most difficult situation it has faced since its establishment. Likely to take place in 2016, the referendum on whether Britain should leave the EU is not only symptomatic of the political crisis, but an exacerbating factor. The same goes for Greece's prospects. In the course of tough negotiations on a third bailout package, which were close to collapse at the start of July 2015, for the umpteenth time the EU demonstrated the political will to keep Greece in the euro area at almost any price. Nevertheless, Greece's future is likely to remain shrouded in uncertainty for some time, a situation that has the potential to unleash another crisis.

According to forecasts from the various economic research institutes, the eurozone economy is unlikely to pick up speed in 2016, with growth remaining roughly in line with the 1.5% recorded in 2015 – although this is well above the projected long-term growth potential of 1.0%. The picture is brighter in Austria, where growth could double year on year in 2016, to around 1.6%. This is mainly attributable to the positive effect of the tax reform and resulting cut in income tax that came into effect at the beginning of 2016. In spite of this upbeat prediction, Austria's leading economic research institutes believe that livelier economic growth will not have a corresponding positive impact on unemployment, because the anticipated rise in employment will not keep pace with the increase in the working population.

Meanwhile, experts believe that the core East European countries – the Czech Republic, Hungary, Poland and Slovakia – will be able to maintain their healthy growth rates in the year ahead. Having said that, the policies introduced by the current Polish and Hungarian governments – including significant intervention in economic structures which frequently puts foreign businesses at a disadvantage – could weigh on those countries' ratings and economic performance, at least in the medium term. However, it is still too early to draw any definitive conclusions, and researchers see this solid economic performance continuing in the foreseeable future. This positive assessment is dependent on whether the aforementioned problems facing the world economy take a turn for the worse. In such a complex environment there is a high degree of uncertainty associated with any forecasts.

Although the Federal Reserve raised US interest rates in December 2015, the markets expect rates in Europe to remain low. In view of the continuing decline in prices on the commodity markets, it may take even longer than anticipated to reach the ECB's inflation target. Therefore the ECB is expected to stick with its ultra-loose monetary policy in 2016. The policy's impact on the euro exchange rate will depend on the ECB's next steps and the responses of other central banks to them. There were signs of how intertwined central banks' actions can be at the start of 2015, when the decision of the Swiss National Bank (SNB) to remove the long-standing floor on the EUR/CHF exchange rate was quickly followed by the announcement of the ECB's QE programme. This programme had a direct influence on many other central banks which in turn loosened their monetary policies. Due to technical restrictions and limits on the ECB's mandate, the QE programme cannot be extended arbitrarily. In addition, QE has negative effects that a responsible central bank must take into account. The largest potential threats to the euro are the extremely tense political landscape in the EU and the economic fallout from a "hard landing" for the Chinese economy. The increased volatility that took hold on international capital markets in 2015 will probably persist this year, and may even increase.

Outlook for Group performance

The HYPO NOE Group still believes it will be confronted with a challenging environment in 2016. The Group's focus on its core regional market, coupled with selective growth and proximity to customers, has proved its worth in recent years and will remain unchanged in the year ahead. As an established regional bank, the HYPO NOE Group is a dependable partner for businesses and the public sector in its core market. The customer base and business volumes have grown steadily in recent years, and HYPO NOE Landesbank AG's 30 branches are a reflection of the Bank's close ties with the region. The Bank will continue its efforts to enhance the branches' position as vital customer service channels and points of first contact.

In 2016 the Group will look to extend its excellent track record in real estate and infrastructure financing in Lower Austria, Vienna and the Danube region. The Group's excellent position in public finance will provide a strong basis for success in 2016. The HYPO NOE Group's core competences in public finance, the retail and corporate business, as well as in real estate finance and development are central to its corporate image, and allow it to offer normal market terms, flexible solutions, and quick and reliable project implementation. The principal competitive advantage is undoubtedly the extent to which the Group can offer high-quality advice and support backed up by a dynamic, stable bank. A comprehensive range of training and development initiatives is vital to safeguarding the Group's commercial success. As a bank with a long tradition when it comes to real estate and infrastructure finance, know-how and experience also create a significant competitive advantage.

The Group plans to enter a larger proportion of financing in the property register in future. Another aim is to achieve increased use of the Group's payment transaction and securities services, and to continue growing the corporate investment services business.

Expansion of the Group's operating segments in selected markets is planned for 2016. A major focus for the Gruppe Bank segment will be financing for and deposits from corporate customers in the HYPO NOE Group's core market, as well as finance for regional and social infrastructure. Relationships with religious communities, interest groups and customers in the agricultural sector will be intensified with a view to building on past successes. Growth in these segments is in line with the market average. The Group will maintain a sharp focus on its core target groups and regions, while taking risk requirements into account. Outside its core market, the Group's business model and risk optimisation are complemented by its activities in the Danube region, where it already has four representative offices.

Attracting additional customer deposits will again be the main priority for the Landesbank segment in 2016. Thanks to the Group's excellent credit rating and outstanding advisory services, there have been increases in volumes and customer numbers in the retail segment which are expected to continue in 2016. The in-depth advice provided by the Bank, coupled with bespoke housing construction finance solutions and asset management as part of securities transactions, sets it apart. Housing construction remains a top priority in the core market. In view of the current low interest rate, strong private investment demand is expected once again in 2016. Although low interest rates are good news for borrowers, they are having a negative impact on the conservative deposits business. In 2016 HYPO NOE Landesbank is again aiming to boost deposits by offering innovative products and attractive conditions.

The Leasing segment also anticipates continued growth in 2016 on the back of a wide range of projects – some of which are already at the preparatory stage – on terms similar to rental agreements. The Other segment, where companies such as HYPO NOE Real Consult GmbH and HYPO NOE First

Facility GmbH form the final link in the Group's real estate services value chain, will continue its expansion in the year ahead thanks to a number of high-profile real estate projects. Building up this segment, which has attractive long-term prospects, will be one of the main focuses in 2016.

The interest-income business will make a solid contribution to earnings growth in the coming year. The HYPO NOE Group will continue to pursue prudent and appropriate risk management and accounting policies. The 2014 and 2015 accounts included provisions in respect of Heta receivables, including liquidity provided to Pfandbriefbank, so as things stand the Group does not anticipate any need to recognise further provisions. The Heta situation, in particular the progression of winding-up measures and their impact, as well as the offer made by the Carinthian Compensation Payment Fund will have to be constantly monitored.

One of the Group's leading priorities is a sustainable liquidity policy, backed up by long-term plans and detailed scenarios. The Group will be taking further steps to diversify its refinancing base in 2016. Collaboration with investors will continue along established lines in 2016, and the Group will maintain a strong emphasis on face-to-face contact at roadshows and conferences. Fees and commissions are expected to carry on making a substantial contribution to earnings. However, a significant cost burden as a result of external factors is anticipated once more in 2016. With this in mind, the Group intends to make modest cuts in administrative expenses to enable the Bank to meet its future obligations. This comes against the backdrop of further increases in investments required for regulatory reasons, including changes in reports submitted to the regulator, the introduction of new accounting principles and technical adaptations in anticipation of planned securities regulations. Pursuant to section 23(d) Banking Act, on 21 December 2015 the FMA enacted the Kapitalpufferverordnung (Capital Buffer Regulation). As a result the Group is subject to an additional requirement for a systemic risk buffer of 1.0% of hard core capital from 1 January 2016. In 2016 the Group expects to record a solid operating profit in line with the long-term average. This means that core capital – which is currently well above the statutory requirement and will be used to meet future capital adequacy requirements – will rise in the year ahead, enabling the Group to safeguard its long-term growth and further enhance its strong position on the market.

The results for 2015, robust foundations laid out in the business model and sound equity base with a strong owner have put the HYPO NOE Group in an excellent position to carry on justifying its customers' trust, and to provide comprehensive project support to corporate, institutional and retail clients.

EVENTS AFTER THE REPORTING PERIOD

Pursuant to section 2a Finanzmarktstabilitätsgesetz (Financial Market Stability Act), on 21 January 2016 the Carinthian Compensation Payment Fund made a tender offer to the holders of state-government-backed Heta Asset Resolution AG debt instruments to purchase unsecured, state-government-backed senior debt instruments issued by Heta Asset Resolution AG at a price of 75% of face value, as well as state-government-backed subordinated Heta Asset Resolution AG debt instruments at a price of 30% of face value plus interest accrued until 1 March 2015. In addition, within four weeks of the legally binding liquidation of Heta Asset Resolution AG, each accepting holder will be paid the difference between the total amounts received from liquidation of Heta Asset Resolution AG and the total applicable Heta compensation amount plus the applicable voluntary premium. The transaction will only take place if the offer is accepted by a quarter of the outstanding nominal amount of all instruments subject to a given offer, and two-thirds of the outstanding nominal amount of all instruments subject to both offers.

The offer covers in full the EUR 225m of unsecured, state-government-backed senior Heta bonds held by the HYPO NOE Group. As of 31 December 2015, the carrying amount was 64.15% of the face value of these impaired Heta bonds. The offer also covers the entire pro rata liabilities assumed and to be assumed by the State of Lower Austria and HYPO NOE Gruppe Bank AG in connection with the Heta receivables payable to Pfandbriefbank (Österreich) AG (one-eighth of approx. EUR 1.2bn). Due to the guarantee given by the State of Lower Austria in respect of the share of Heta receivables assumed by HYPO NOE Gruppe Bank AG, no risk provisions had been recognised for this item as at 31 December 2015. This guarantee is coupled with a debt warranty, for which a loss of EUR 10.9m was recognised as at 31 December 2015.

At present it is impossible to foresee the implications of the creditors' acceptance or rejection of the tender offer for Austria's capital markets. Irrespective of the outcome, the effects could include increased refinancing costs for Austrian banks and restricted access to certain sources of funding. The possible rejection of the offer by investors also casts doubt on the timing and amount of repayments. If Carinthia becomes insolvent owing to rejection of the transaction, this could have consequences for Austrian participants in international capital markets. In addition, such an unprecedented event for a European economy would indirectly affect Austria's banking sector and the country's standing as a financial centre, posing a threat to the Bank's equity and refinancing activities, and leaving the Bank exposed to further potential losses. A detailed assessment of a potential improvement of the offer, and of a recovery rate above or below the 75% currently on offer is not possible at present.

The internal recovery rate of 64.15% applied in the annual financial statements is below the 75% offered by the Carinthian Compensation Payment Fund. Although the effects mentioned above cannot be evaluated, the Group believes that proper provision will be made for Heta receivables on the basis of a realistic assessment of the likelihood of those effects.

St. Pölten, 22 February 2016

The Management Board

Peter Harold
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

IN ACCORDANCE WITH IFRS

STATEMENT OF COMPREHENSIVE INCOME

Profit or loss (EUR '000)	Notes	2015	2014	Change
Interest and similar income	5.1	583,757	595,302	-11,545
Interest and similar expense	5.2	-452,917	-465,393	12,476
Net interest income		**130,840**	**129,909**	**931**
Credit provisions	5.3	1,171	-6,717	7,888
Net interest income after risk provisions		**132,011**	**123,192**	**8,819**
Fee and commission income		16,638	16,882	-244
Fee and commission expense		-2,788	-2,903	115
Net fee and commission income	**5.4**	**13,850**	**13,979**	**-129**
Net trading income	5.5	3,242	-1,815	5,057
Administrative expenses	5.6	-129,111	-127,092	-2,019
Net other operating income	5.7	25,000	23,659	1,341
Net gains or losses on investments accounted for using the equity method	3.2.3	-4,744	-2,521	-2,223
Net gains or losses on available-for-sale financial assets	5.8	-27,825	-64,958	37,133
Net gains or losses on financial assets designated as at fair value through profit or loss	5.9	-126	44	-170
Net gains or losses on hedges	5.10	-1,887	-2,369	482
Net gains or losses on other financial investments	5.12	1,249	-1,930	3,179
Profit/loss for the year before tax		**11,659**	**-39,810**	**51,469**
Income tax expense	(5.13)	-5,255	8,822	-14,077
Profit/loss for the year		**6,404**	**-30,988**	**37,392**
Non-controlling interests	5.14	-252	-350	98
Profit/loss attributable to owners of the parent		**6,152**	**-31,338**	**37,490**

Other comprehensive income (EUR '000)	2015	2014
Profit/loss attributable to owners of the parent	**6,152**	**-31,338**
Items that will not be reclassified to profit or loss		
Change in actuarial gains or losses (before tax)	824	-480
Change in deferred tax	-206	120
Items that may be reclassified subsequently to profit or loss		
Change in available-for-sale financial instruments (before tax)	4,987	69,114
Exchange differences on translating foreign operations accounted for using the equity method (before tax)	-13	-61
Change in deferred tax	-1,243	-17,263
Total other comprehensive income	**4,348**	**51,430**
Total comprehensive income attributable to owners of the parent	**10,500**	**20,092**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets (EUR '000)	Notes	31 Dec. 2015	31 Dec. 2014	Change
Cash and balances at central banks	6.1	68,986	99,025	-30,039
Loans and advances to banks	6.3	922,091	944,046	-21,955
Loans and advances to customers	6.4	11,557,287	11,194,066	363,221
Risk provisions	6.5	-100,423	-108,562	8,139
Assets held for trading	6.6	586,811	652,995	-66,184
Positive fair value of hedges (hedge accounting)	6.7	509,458	663,827	-154,369
Available-for-sale financial assets	6.8	2,104,338	2,245,409	-141,071
Financial assets designated as at fair value through profit or loss	6.9	4,118	4,244	-126
Investments accounted for using the equity method	6.10	20,937	27,105	-6,168
Investment property	6.11	68,704	67,752	952
Intangible assets	6.13	1,411	1,352	59
Property, plant and equipment	6.13	80,159	80,913	-754
Current tax assets	6.16	19,653	10,856	8,797
Deferred tax assets	6.16	2,105	2,417	-312
Other assets	6.17	50,010	38,532	11,478
Non-current assets held for sale (IFRS 5)	6.18	-	2,983	-2,983
Total assets		**15,895,645**	**15,926,960**	**-31,315**

Equity and liabilities (EUR '000)	Notes	31 Dec. 2015	31 Dec. 2014	Change
Deposits from banks	6.20	2,217,495	2,627,730	-410,235
Deposits from customers	6.21	3,260,856	2,305,056	955,800
Debts evidenced by certificates	6.22	8,165,837	8,553,311	-387,474
Liabilities held for trading	6.23	516,969	591,140	-74,171
Negative fair value of hedges (hedge accounting)	6.24	740,962	877,867	-136,905
Provisions	6.25	55,794	49,291	6,503
Current tax liabilities	6.26	10,073	10,753	-680
Deferred tax liabilities	6.26	34,434	30,651	3,783
Other liabilities	6.27	106,297	104,376	1,921
Subordinated capital	6.28	205,449	206,059	-610
Equity (inc. non-controlling interests)*	6.29	581,479	570,726	10,753
Parent shareholders' equity		572,855	562,355	10,500
Non-controlling interests		8,624	8,371	253
Total equity and liabilities		**15,895,645**	**15,926,960**	**-31,315**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

See Note 6.29 for a discussion of the consolidated statement of changes in equity.

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

EUR 456thsd in after-tax losses on available-for-sale (AFS) financial instruments (2014: gains of EUR 48,408thsd) were recycled from other comprehensive income to profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	31 Dec. 2015	31 Dec. 2014
Profit/loss for the year (before non-controlling interests)	**6,404**	**-30,988**
Non-cash comprehensive income items		
Amortisation, depreciation, impairment and write-ups	35,900	76,037
Allocations to and reversals of provisions and risk provisions	16,952	14,595
Gains on disposal of financial assets and property, plant and equipment	-1,008	796
Other adjustments	-17,563	120,143
Changes in assets and liabilities due to operating activities after adjustments for non-cash components		
Loans and advances to banks	21,657	-170,943
Loans and advances to customers	-490,521	19,476
Available-for-sale financial assets	115,699	-441,780
Other operating assets	44,185	89,706
Deposits from banks	-408,169	219,757
Deposits from customers	967,826	141,309
Debts evidenced by certificates	-239,683	67,009
Other operating liabilities	-87,236	-41,156
Cash flows from operating activities	**-35,558**	**63,962**
Proceeds from sale of/redemption of:		
Investments (incl. 2015 cash flows in accordance with IFRS 5; see Note 6.18)	3,533	3,000
Property, plant and equipment, intangible assets and investment property	1,954	1,248
Purchase of:		
Investments	-805	-357
Property, plant and equipment, intangible assets and investment property	-9,062	-8,068
Acquisition of subsidiaries, associates and joint ventures (incl. AFS investments)	-	-623
Cash flows from investing activities	**-4,380**	**-4,799**
Dividends paid	-	-11,000
Subordinated debt (outflows)	-2,205	-5,906
Cash flows from financing activities	**-2,205**	**-16,906**
Effect of exchange rate changes on cash and cash equivalents	**12,104**	**159**

EUR '000	31 Dec. 2015	31 Dec. 2014
Cash and cash equivalents at end of previous period	**99,025**	**56,609**
Cash flows from operating activities	-35,558	63,962
Cash flows from investing activities	-4,380	-4,799
Cash flows from financing activities	-2,205	-16,906
Effect of exchange rate changes on cash and cash equivalents	12,104	159
Cash and cash equivalents at end of period	**68,986**	**99,025**

Taxes, interest and dividends paid (included in cash flows from operating activities)		
Income taxes refunded/paid	-11,233	-11,193
Interest received	576,939	589,559
Interest paid	-463,687	-467,039
Dividends on AFS investments received	1,101	1,014
Dividends received from associates	902	1,249
Dividends received from joint ventures	526	552

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS AND GOVERNING BODIES

1. GENERAL INFORMATION

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

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

The 2015 consolidated financial statements will be published in the Wiener Zeitung on 5 March 2016, and posted in the Investor Relations/Reports section of the Group's website (www.hyponoe.at).

2. ACCOUNTING POLICIES

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2015 were drawn up in accordance with section 245a Unternehmensgesetzbuch (Austrian Business Code) and section 59a Bankwesengesetz (Banking Act), as well as Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. The statements were prepared on the basis of the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), as well as the interpretations issued by the Standing Interpretations Committee (SIC) and the IFRS Interpretations Committee (IFRIC).

The consolidated financial statements have been prepared in accordance with the IFRS/IAS standards and interpretations thereof adopted and published by the European Union up to 31 December 2015, and applicable to the business activities of the HYPO NOE Group.

NEW AND AMENDED STANDARDS

IFRIC 21 Levies – mandatory for reporting periods beginning on or after 17 June 2014

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

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle entered into effect in 2015 but were not applied, as the amendments were not relevant to any material transactions within the HYPO NOE Group. They could, however, affect the accounting treatment of future transactions or agreements.

NEW AND AMENDED STANDARDS ADOPTED, BUT NOT YET APPLIED

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

Annual Improvements to IFRSs 2010-2012 Cycle – mandatory for reporting periods beginning on or after 1 February 2015

Amendments to IAS 19 Employee Benefits – mandatory for reporting periods beginning on or after 1 February 2015

The amendment relates to the recognition of contributions by employees or third parties to defined benefit pension plans. Under IAS 19, contributions made by employees or third parties may be recognised as a reduction in the service cost in the reporting period in which they fall due, provided that all of the contributions are related to services rendered during the reporting period in question. This has no influence on the preparation of the HYPO NOE Group's consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle – mandatory for reporting periods beginning on or after 1 January 2016

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

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

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

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

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

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

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

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

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

This clarification states that for property, plant and equipment, a method of amortisation that is based on revenue generated from an activity that includes the use of an asset is not appropriate because it reflects a pattern of economic benefits being generated, but not a pattern of their consumption. With regard to intangible assets, there is a rebuttable presumption that revenue cannot be used as a basis for amortisation. The clarification does not affect the HYPO NOE Group's financial statements.

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

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

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

The standard specifies when and in what amount reporting entities must recognise revenue.

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

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

The implications for the Bank are being investigated internally on the basis of the applicable standards that are due to be superseded. Potential steps required for implementation will be identified in 2016.

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

IFRS 9 deals with the classification and measurement of financial instruments, as well as risk provisions and hedge accounting. The final version of the standard was published on 24 July 2014; this was part of a comprehensive, three-phase project aimed at improving and simplifying the reporting of financial instruments. As a result, accounting for financial instruments is now in accordance with IFRS 9, which has completely replaced IAS 39 Financial Instruments: Recognition and Measurement. The published version of IFRS 9 replaces all previous versions. The main requirements of IFRS 9 are as follows.

- Most of the requirements of the standard's predecessor, IAS 39, with regard to recognition and derecognition have been carried forward unchanged to IFRS 9.
- IFRS 9 requires the use of a new classification model for financial assets, under which such assets are subsequently measured either at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. Each category has a specific set of conditions that must be met and specific requirements for impairment.
- The classification and measurement of financial assets will involve a considerable workload for the HYPO NOE Group, both in technical and organisational terms. Under IFRS 9 financial assets are classified and measured on the basis of the business model for managing such assets and the contractual cash flow characteristics of the assets.
- Most of the requirements relating to financial liabilities have been retained, and the option of designating financial liabilities as at fair value through profit or loss has been introduced. Fluctuations in fair value resulting from changes in the level of default risk to which an entity is exposed are recognised in other comprehensive income.
- For assets measured at amortised cost, IFRS 9 provides for three stages of credit loss provision that determine the losses and interest revenue to be recognised. On initial recognition, an entity must recognise expected losses equal to the present value of the 12-month expected credit losses (Stage 1). If there has been a significant increase in the default risk, the loss allowance must be increased to an amount equal to the lifetime expected credit losses (Stage 2). The Group anticipates that the shift from Stage 1 to Stage 2 will have the most significant impact on future risk provision. If there are objective indications of impairment, the calculation of interest revenue must be based on the asset's net carrying amount (carrying amount minus loss allowance) (Stage 3). The Group will be focusing primarily on the professional and technical implementation of IFRS 9 in order to ensure that it continues to be able to account for financial assets and liabilities. The first steps towards applying the standard were planning phases for implementation, the selection of IT solutions and impact analyses.
- In addition to numerous transitional provisions, IFRS 9 also includes extensive disclosure requirements that relate to the transition period and ongoing application of the standard. The provisions on impairment represent the principal change in comparison with IFRS 7 Financial Instruments: Disclosures.
- From a regulatory perspective, the increased workload resulting from implementation of IFRS 9 will mainly be connected with preparing information for the supervisory reporting and completing the amended FINREP templates. Initial drafts of these templates were published in the fourth quarter of 2015. Due to the resulting reduction in equity in accordance with IFRS and the additional disclosure requirements relating to loss allowances, application of IFRS 9 will have significant effects on the Group's supervisory reporting (e.g. solvability, large exposures, leverage ratio and net stable funding ratio).

3. ACCOUNTING AND MEASUREMENT METHODS

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2015 comprise the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes. The segment information is contained in the notes.

From 2015 the risk report, which contains disclosures pursuant to the provisions on the operational and financial review in section 267 Austrian Business Code, is part of the notes.

The consolidated financial statements are based on the separate financial statements of all the consolidated Group companies as at 31 December 2015, prepared in accordance with IFRS. The HYPO NOE Group uses uniform Group-wide accounting policies.

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

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

The Group's significant accounting policies are discussed below.

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

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

Estimation uncertainty and judgements

All the estimates and judgements required by IFRS are best estimates made in accordance with the relevant standards. The estimates are reviewed on an ongoing basis, and are based on experience and other factors including expectations regarding future events that appear reasonable under the circumstances. Particularly frequent use of estimates and assumptions was made when valuing investments, valuing the EWU Group (see Note 3.2.3 Associates and joint ventures), assessing inclusion in the scope of consolidation (Note 3.1 Basis of consolidation), recognising deferred tax assets attributable to tax loss carryforwards (Note 3.17 Tax assets and liabilities), recognising credit provisions (estimating recoverable amounts and calculating default probabilities; Note 3.12 Risk provisions), recognising provisions (Note 3.13 Provisions, in particular regarding the discount rate used in connection with employee benefits, and Note 6.25.2 Disclosures on employee benefits), as well as performing fair value measurement (on the basis of observable market data; Note 8.1.2 Fair value hierarchy disclosures).

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

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

3.1 BASIS OF CONSOLIDATION

The scope of consolidation of the HYPO NOE Group includes all the subsidiaries that are directly or indirectly controlled by the parent, and are material to the presentation of the Group's assets, finances and earnings. The scope of consolidation is reviewed on an ongoing basis. Apart from the parent, HYPO NOE Gruppe Bank AG, the Group comprises a total of 73 Austrian subsidiaries in which the parent meets the criteria for control. Besides the parent, a total of 74 Austrian subsidiaries were included in consolidation in the previous reporting period.

In addition, 16 Austrian and six foreign companies are accounted for using the equity method. In 2014, 15 Austrian and six foreign companies were accounted for in the Group's consolidated financial statements using the equity method.

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

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

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

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

Consolidation is performed in accordance with IFRS 3 Business Combinations, using the acquisition method. The identifiable assets acquired, liabilities assumed and non-controlling interests are recognised at fair value as at the acquisition date. Any excess of the cost over the fair value of the net assets acquired is reported as goodwill (i.e. as an intangible asset; see Note 3.10 Intangible assets, and property, plant and equipment). Negative differences are recognised directly in profit or loss following an additional review. The carrying value of the goodwill is tested for impairment once a year and whenever there is an indication of impairment. Such indicators include material deviations from the original strategic objectives, forecasts or the business plan of the companies in question, as well as deteriorations in market conditions.

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

Value in use is calculated using the discounted cash flow (DCF) method,

applying a discount rate based on the weighted average cost of capital (WACC).

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

The share of the equity and profit or loss of majority-owned subsidiaries of the HYPO NOE Group attributable to non-controlling interests is reported separately in the consolidated statement of changes in equity, and also after profit/loss for the year in the statement of comprehensive income, under 5.14 Non-controlling interests.

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

All material intra-Group transactions are eliminated on consolidation.

The HYPO NOE Group does not apply proportionate consolidation, as it does not hold stakes in joint arrangements.

Joint ventures (IFRS 11) and associates (IAS 28) are accounted for using the equity method unless they are immaterial to the presentation of the Group's assets, finances and earnings (see Note 3.2 Investments). If an entity accounted for using the equity method applies accounting policies that diverge from those of the Group, adjustments are made to align the investee's accounting policies to the Group's IFRS policies. Joint ventures and associates are reported under a separate item in the statement of financial position (see Note 6.10 Investments accounted for using the equity method), and under net gains or losses on investments accounted for using the equity method in the statement of comprehensive income.

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

Changes in 2015

Mergers

NÖ. HYPO LEASING DECUS Grundstückvermietungs Gesellschaft m.b.H. and HYPO NOE Immobilien Beteiligungsholding GmbH – both of which were consolidated subsidiaries – merged with effect from 24 December 2015, the date on which the merger was entered into the register of companies. This has no effect on the consolidated financial reporting of the HYPO NOE Group.

Disposals

first facility d.o.o, a subsidiary of HYPO NOE First Facility GmbH registered in Serbia, was divested with effect from 20 April 2015. The gain is reported in the Other segment, under net gains or losses on investments accounted for using the equity method (see Note 3.2.3 Associates and joint ventures).

The Group disposed of 50% of the shares in wholly-owned subsidiary WPS-Wirtschaftspark Sieghartskirchen Gesellschaft m.b.H., an available-for-sale investment, as of 11 August 2015. The company was renamed BSZ Eisenstadt Immobilien GmbH, which is recognised in the Other segment as an investment accounted for using the equity method.

Changes of name

Consolidated subsidiary Hypo Immobilien-Beteiligungsholding GmbH was renamed HYPO Omega Holding GmbH in September 2015.

Another consolidated subsidiary, NÖ Hypo Beteiligungsholding GmbH, was renamed HYPO NOE Immobilien Beteiligungsholding GmbH in October 2015.

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

3.2 INVESTMENTS

3.2.1 Subsidiaries

The following consolidated, directly or indirectly held Group companies were included in the IFRS consolidated financial statements of HYPO NOE Gruppe Bank AG as at 31 December 2015:

Company name	Domicile	Interest	Of which indirect	Reporting date	Segment
74 consolidated subsidiaries					
HYPO NOE Gruppe Bank AG	St. Pölten			31 Dec. 2015	Gruppe Bank
HYPO NOE Landesbank AG	St. Pölten	100.00%	-	31 Dec. 2015	Landesbank
HYPO NOE Leasing GmbH	St. Pölten	100.00%	-	31 Dec. 2015	Leasing
"CALCULATOR Grundstückvermietungs Gesellschaft m.b.H."	St. Pölten	100.00%	75.00%	31 Dec. 2015	Leasing
CURIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2015	Leasing
FAVIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
NÖ. Verwaltungszentrum - Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
PROVENTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
Sana Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
Telos Mobilien - Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
Treisma Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
VIA-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
FORIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2015	Leasing
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	31 Dec. 2015	Leasing
HYPO Niederösterreichische Liegenschaft GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
NEUROM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
NÖ. HYPO LEASING URBANITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
AELIUM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
NÖ. HYPO LEASING Landeskliniken Equipment GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
NÖ. HYPO LEASING AGILITAS Grundstücksvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2015	Leasing
ALARIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2015	Leasing
CALLIDUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
CLIVUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
COMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
NÖ. HYPO LEASING FIRMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
NÖ. HYPO LEASING GERUSIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2015	Leasing
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2015	Leasing

Company name	Domicile	Interest	Of which indirect	Reporting date	Segment
PINUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	99.00%	99.00%	31 Dec. 2015	Leasing
NÖ. HYPO LEASING STRUCTOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2015	Leasing
VIRTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	65.00%	65.00%	31 Dec. 2015	Leasing
Adoria Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2015	Leasing
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%	31 Dec. 2015	Leasing
VESCUM Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
VITALITAS Grundstückverwaltung GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
METIS Grundstückverwaltungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	31 Dec. 2015	Leasing
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%	31 Dec. 2015	Leasing
SATORIA Grundstückvermietung GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	66.67%	66.67%	31 Dec. 2015	Leasing
Landeskrankenhaus Tulln-Immobilienvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	56.42%	31 Dec. 2015	Leasing
Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
HYPO-REAL 93 Mobilien-Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
NÖ. HYPO LEASING MENTIO Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
NÖ. HYPO LEASING NITOR Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
NÖ. HYPO LEASING MEATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2015	Leasing
NÖ. HYPO LEASING ASTEWOG Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2015	Leasing
NEMUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31 Dec. 2015	Leasing
HYPO NOE Real Consult GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
HYPO NOE Immobilienmanagement GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
HBV Beteiligungs-GmbH	St. Pölten	100.00%	-	31 Dec. 2015	Other
ZELUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Leasing
Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
Steinmüllergasse 64 Development GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
Benkerwiese Mietergemeinschaft GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	St. Pölten	90.00%	90.00%	31 Dec. 2015	Other
Neustift-am-Walde 32 Immobilienentwicklung GmbH	St. Pölten	90.00%	90.00%	31 Dec. 2015	Other
Haymogasse 102 Immobilienentwicklung GmbH	St. Pölten	90.00%	90.00%	31 Dec. 2015	Other
Stettnerweg 11-15 Liegenschaftsentwicklungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
HYPO NOE First Facility GmbH	Vienna	100.00%	100.00%	31 Dec. 2015	Other
HYPO NOE Versicherungsservice GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Landesbank
Strategic Equity Beteiligungs-GmbH	St. Pölten	100.00%	49.00%	31 Dec. 2015	Other
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	St. Pölten	64.00%	64.00%	31 Dec. 2015	Other

Company name	Domicile	Interest	Of which indirect	Reporting date	Segment
Strategic Real Estate GmbH	Vienna	100.00%	49.00%	31 Dec. 2015	Other
SRE Immobilien GmbH	Vienna	100.00%	100.00%	31 Dec. 2015	Other
HYPO NOE Valuation & Advisory GmbH	St. Pölten	100.00%	10.00%	31 Dec. 2015	Other
HYPO NOE Immobilien Beteiligungsholding GmbH	St. Pölten	100.00%	-	31 Dec. 2015	Other
HYPO Omega Holding GmbH	St. Pölten	100.00%	-	31 Dec. 2015	Other
HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other
HYPO Delta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31 Dec. 2015	Other

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

The table below provides financial information on subsidiaries that hold non-controlling interests, broken down by segment. The share of non-controlling interests in the profit or loss of each company is shown under Note 5.14. The non-controlling interests do not share in other comprehensive income.

Assets and liabilities in accordance with IFRS before intra-Group elimination, EUR '000	Subsidiaries with non-controlling interests in the Leasing segment		Subsidiaries with non-controlling interests in the Other segment	
	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
Loans and advances to banks	390	157	-	158
Loans and advances to customers	488,232	474,625	-	-
Investment property	-	-	5,602	3,669
Current tax assets	2	-	-	-
Deferred tax assets	-	-	-	13
Other assets	3,844	1,761	10,263	9,361
Total assets	**492,468**	**476,543**	**15,865**	**13,201**
Deposits from banks	440,401	420,342	8,045	7,379
Deposits from customers	14,955	13,500	1,035	1,008
Current tax liabilities	-974	-974	-	-
Deferred tax liabilities	4,853	4,415	137	136
Other liabilities	13,130	19,778	937	269
Subordinated capital	2,907	2,907	-	-
Equity	17,196	16,575	5,711	4,409
Parent shareholders' equity	*9,049*	*8,684*	*5,234*	*3,929*
Non-controlling interests	*8,147*	*7,891*	*477*	*480*
Total equity and liabilities	**492,468**	**476,543**	**15,865**	**13,201**

No dividends were distributed to non-controlling interests in 2015. After adjustment for non-cash components of assets and liabilities, no cash flow contribution was recognised in the consolidated statement of cash flows.

3.2.3 Associates and joint ventures

Investments in associates and arrangements where there is joint control are recognised at cost, and are included in the consolidated statement of financial position at the date on which significant influence is obtained. In subsequent periods the carrying amount of the holdings is adjusted for changes in equity and the entire material carrying amount is tested for impairment (see Note 6.10 Investments accounted for using the equity method and Note 3.2 Investments).

The Group ceases to use equity-method accounting from the point in time at which the investment no longer represents an associate or a joint venture, or when the investment must be classified as held for sale in accordance with IFRS 5. As part of the ongoing review of the scope of consolidation, investments accounted for using the equity method where the interest is below the Group's specified materiality threshold may be deconsolidated and reported as available-for-sale financial assets (see Note 6.8). Such AFS investments are regularly reviewed for factors that may require the investment to be consolidated or accounted for using the equity method.

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

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

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

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

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

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

Company name	Domicile	Interest	Of which indirect	EUR '000 Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	392	3	31 Dec. 2015
				569	8	31 Dec. 2014
Viminal Grundstückverwaltungs Gesellschaft m.b.H.	Vienna	50.00%	50.00%	-	-46	31 Dec. 2015
				265	12	31 Dec. 2014
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	1,087	2	30 Sep. 2015
				1,093	50	30 Sep. 2014

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

Company name	Domicile	Interest	Of which indirect	EUR '000 Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	2,012	304	31 Dec. 2014
				1,828	247	31 Dec. 2013

The following joint ventures are included in the Other segment.

Company name	Domicile	Interest	Of which indirect	EUR '000 Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
BSZ Eisenstadt Immobilien GmbH	St. Pölten	50.00%	50.00%	-	-10	31 Dec. 2015
				-	-	
Joint ventures - subtotal as at 31 Dec. 2015				**3,491**	**254**	
Joint ventures - subtotal as at 31 Dec. 2014				**3,754**	**317**	

Consolidation of seven joint ventures previously accounted for using the equity method in the Leasing segment in the reporting period ended 31 December 2014:

				EUR '000		
Company name	Domicile	Interest	Of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
FORIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%		7	31 Dec. 2014
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%		15	31 Dec. 2014
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%		27	31 Dec. 2014
Adoria Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%		25	31 Dec. 2014
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%		-26	31 Dec. 2014
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%		-2	31 Dec. 2014
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%		201	31 Dec. 2014

Deconsolidation of 11 joint ventures in the Leasing segment in the reporting period ended 31 Dec. 2014:

				EUR '000		
Company name	Domicile	Interest	Of which indirect	Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
CULINA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%		-215	31 Dec. 2014
FACILITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%		-50	31 Dec. 2013
NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%		-127	31 Dec. 2014
TRABITUS Grundstückvermietungs Gesellschaft m.b.H.	Vienna	50.00%	25.00%		-160	30 Sep. 2014
UNDA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%		-38	31 Dec. 2013
Purge Grundstücksverwaltungs-Gesellschaft m.b.H.	Vienna	50.00%	50.00%		7	31 Dec. 2013

NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. & NÖ.HYPO Leasinggesellschaft m.b.H. - Strahlentherapie OG	St. Pölten	50.00%	50.00%		-75	30 Sep. 2014
N.Ö. Gemeindegebäudeleasing Gesellschaft m.b.H. in Liquidation	Vienna	33.30%	-		-	31 Dec. 2013
N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-		6	31 Dec. 2013
NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-		-344	31 Dec. 2013
Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	33.33%	-		39	30 Sep. 2014
Deconsolidated joint ventures – subtotal as at 31 Dec. 2015				**-**	**-**	
Deconsolidated joint ventures – subtotal as at 31 Dec. 2014				**-**	**-709**	

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

The positions held by key management personnel on the management boards of associates as well as other details are provided in Note 8.5 Disclosures on related-party relationships.

The following associates are included in the Gruppe Bank segment. Financial information on the material investments of the Gruppe Bank segment is provided below. Associates in which the Gruppe Bank segment has an interest do not share in other comprehensive income.

				EUR '000		
Company name	**Domicile**	**Interest**	**Of which indirect**	**Carrying amount of interests in associates and joint ventures (IFRS share of equity)**	**Profit/loss from continuing operations (measurement gains or losses)**	**Reporting date**
Gemeinnützige Wohnungsgesellschaft „Austria“ Aktiengesellschaft	Mödling	44.39%	44.39%			
„Wohnungseigentümer“ Gemeinnützige Wohnbaugesellschaft m.b.H.	Mödling	44.75%	44.75%	Included in EWU consolidated financial statements		
GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H.	Mödling	42.60%	42.60%			
EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements)				13,892	-5,859	31 Dec. 2015
	Vienna	44.79%	-	19,811	-3,235	31 Dec. 2014
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.				1,294	410	31 Dec. 2014
	Korneuburg	32.50%	-	1,212	393	31 Dec. 2013

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

Company name	Domicile	Interest	Of which indirect	EUR '000 Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	673	8	31 Dec. 2015
				665	82	31 Dec. 2014
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	332	3	31 Dec. 2014
				329	-41	31 Dec. 2013

The table below shows the associates in the Other segment. Where the segment's interest is below 50%, the associate is accounted for using the equity method owing to significant influence and materiality.

The share of other comprehensive income attributable to currency translation of EUR -13thsd (31 Dec. 2014: EUR -60.6thsd) relates to currency translation in connection with foreign associates in the Other segment.

Company name	Domicile	Interest	Of which indirect	EUR '000 Carrying amount of interests in associates and joint ventures (IFRS share of equity)	Profit/loss from continuing operations (measurement gains or losses)	Reporting date
Haring Liegenschaftsentwicklungs GmbH	Vienna	25.00%	25.00%	22	322	31 Dec. 2015
				-	-	31 Dec. 2014
Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH	St. Pölten	50.00%	50.00%	-	-46	31 Dec. 2014
				46	-174	31 Dec. 2014
Ernst Hora Elektroinstallationen Gesellschaft m.b.H.	Vienna	100.00%	100.00%	-	-	31 Dec. 2014
				-	-	31 Dec. 2014
first facility Ingatlankezelö Korlátolt Felelösségü Társaság	Budapest	100.00%	100.00%	607	-119	31 Dec. 2014
				566	72	31 Dec. 2013
first facility Imobilie SRL	Bucharest	55.00%	55.00%	95	94	31 Dec. 2014
				70	71	31 Dec. 2013
first facility Bulgaria EOOD	Sofia	100.00%	100.00%	413	103	31 Dec. 2014
				429	103	31 Dec. 2013
first facility Macedonia dooel	Skopje	100.00%	100.00%	-	-10	31 Dec. 2014
				10	-5	31 Dec. 2013
first facility - Slovakia s.r.o.	Bratislava	100.00%	100.00%	119	4	31 Dec. 2014
				114	-	31 Dec. 2013
Niederösterreichische Facility Management GmbH	Wiener Neustadt	40.00%	40.00%	-	5	31 Dec. 2014
				82	52	31 Dec. 2014
Associates – subtotal at 31 Dec. 2015				**17,446**	**-5,085**	
Associates – subtotal at 31 Dec. 2014				**23,334**	**-2,682**	

One associate was deconsolidated in 2015; in the previous year three associates were deconsolidated and one was reclassified as held for sale in accordance with IFRS 5:

				EUR '000		
Company name	**Domicile**	**Interest**	**Of which indirect**	**Carrying amount of interests in associates and joint ventures (IFRS share of equity)**	**Profit/loss from continuing operations (measurement gains or losses)**	**Reporting date**
Gruppe Bank segment						
KASERNEN Projektentwicklungs- und Beteiligungs GmbH	Vienna		Deconsolidated in 2014	-	-	31 Dec. 2013
HYPO Capital Management AG	Vienna		Reclassified in accordance with IFRS 5 in 2014	-	238	31 Dec. 2013
Other segment:						
Backhausen GmbH	St. Pölten		Deconsolidated in 2014	-	564	31 Mar. 2014
		-	-	-	87	20 Apr. 2015
first facility d.o.o	Belgrade	51.00%	51.00%	16	-19	31 Dec. 2013
Landesbank segment						
NÖ Bürgschaften und Beteiligungen GmbH	Vienna		Deconsolidated in 2014	-	-230	31 Dec. 2013
Deconsolidated associates – subtotal at 31 Dec. 2015				**-**	**87**	
Deconsolidated associates – subtotal at 31 Dec. 2014				**16**	**553**	

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

Investments accounted for using the equity method – total at 31 Dec. 2015	**20,937**	**-4,744**	
Investments accounted for using the equity method – total at 31 Dec. 2014	**27,105**	**-2,521**	

Detailed disclosures on material joint ventures accounted for using the equity method and associates in the Gruppe Bank segment

The following company is a joint venture accounted for using the equity method:

- Niederösterreichische Vorsorgekasse AG

Joint control is exercised by means of unanimous resolutions on the appointment of management board members.

The following sub-group, including its subsidiaries, forms part of the Gruppe Bank segment and is reported as an associate accounted for using the equity method:

- EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft with its subsidiaries
- Gemeinnützige Wohnungsgesellschaft „Austria“ Aktiengesellschaft
- „Wohnungseigentümer“ Gemeinnützige Wohnbaugesellschaft m.b.H.
- GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H.

Significant influence is exercised by means of the appointment of members of the Group’s key management to positions at these companies.

The positions held by key management personnel on the management boards of associates and joint ventures, as well as other details are provided in Note 8.5 Disclosures on related-party relationships.

As a separate financial services provider and employee benefit fund, **Niederösterreichische Vorsorgekasse AG** manages employees’ termination benefit claims. Statutory contributions for employees are paid by employers. As there is a requirement for unanimous resolutions on the appointment of the management board, the company is classified as being under joint control.

The subsidiaries of **EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft** are mainly concerned with the acquisition, disposal and management of land, buildings and apartments on behalf of third parties. The subsidiaries also operate as construction companies which are subject to the Austrian Wohnungsgemeinnützigkeitsgesetz (Non-profit Housing Act). The Act includes capital protection provisions in the form of restrictions on the treatment of members pursuant to property law, including the maximum distributable profit and the stipulation that in the event of dissolution of a company, any surplus must be used for charitable purposes. With respect to measurement, it should be noted that the equity method specified in IAS 28 (accounting principles applied in provisional financial statements) does not take account of the restrictions in the Act. These are reported as adjustment items pursuant to the capital protection provisions in the Act. With regard to equity, the disclosures are based on the provisional financial statements prepared in accordance with the Austrian Business Code and reconciled with IFRS, while adjustment items are used in the financial information. With an interest of 44.79%, the Group has sufficient voting rights to influence the company’s core activities.

Measurement was therefore based on the concept of value in use, taking account of the net asset value (NAV) based on the present value of expected dividend payments (calculated using the dividend discount model) and on the benefits derived from future surplus cash flows generated by the new lending business (calculated using the discounted cash flow model). In order to calculate these benefits, assumptions based on the HYPO NOE Group’s medium-term planning were made with regard to future lending, average margins and costs. The expected volume of new lending was lower than in the previous year. Value in use for the EWU Group amounted to EUR 13,892thsd in 2015. The applicable discount rate was calculated using the capital asset pricing model (CAPM). The rate for the NAV components was 7.31% (2014: 6.29%), and for the value components for surplus cash flows generated by the new lending business the rate was 4.78% (2014: 5.11%).

Summary financial information on the material associates of the Gruppe Bank segment is provided in the table below.

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

	Niederösterreichische Vorsorgekasse AG		EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements)	
Proportion of ownership	**49.00%**	**49.00%**	**44.79%**	**44.79%**
EUR '000 at date of consolidated financial statements	**31 Dec. 2015**	**31 Dec. 2014**	**31 Dec. 2015**	**31 Dec. 2014**
Non-current assets	5,072	4,481	1,472,279	1,480,226
Current assets	44	84	133,520	127,877
Cash and cash equivalents	*44*	*84*	*76,682*	*76,680*
Long-term borrowings	-1	-76	-1,495,482	-1,504,081
Short-term borrowings	-763	-562	-21,711	-24,894
Net assets (100%)	**4,352**	**3,927**	**88,606**	**79,128**
Group share of net assets	**2,132**	**1,924**	**39,687**	**35,441**
Adjustment items pursuant to the capital protection provisions in the Non-profit Housing Act	-	-	-25,735	-15,541
Dividends received	-120	-96	-60	-90
Carrying amount of interests in associates	**2,012**	**1,828**	**13,892**	**19,811**

EUR '000 - profit/loss as basis for inclusion in annual report	**31 Dec. 2015**	**31 Dec. 2014**	**31 Dec. 2015**	**31 Dec. 2014**
Net interest income	165	194	546	497
Other income	2,092	1,874	130,692	124,834
Operating expense	-1,429	-1,400	-121,591	-121,432
Profit for the year before tax	828	669	9,647	3,899
Income tax expense	-207	-165	-7	-8
Profit for the year (100%)	**621**	**504**	**9,640**	**3,891**
Group share of adjustment items pursuant to the capital protection provisions of the Non-profit Housing Act	-	-	-10,177	-4,978
Group share of profit/loss	**304**	**247**	**-5,859**	**-3,235**

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

The following companies are reported as available-for-sale investments where the Group's interest is in excess of 20%. An internal evaluation of VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H. and NÖ Kulturwirtschaft GesmbH found that the Group did not exercise control over these companies in the meaning of IFRS 10, and they were therefore not consolidated. As the other companies are immaterial, they are reported as AFS investments in which the Group has interests of over 20%.

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

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

3.3 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

IAS 39 requires the recognition of all financial assets and liabilities in the consolidated statement of financial position.

The regular way purchase or sale of derivatives and financial instruments is recognised on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the transfer criteria established by IAS 39 are fulfilled. Financial liabilities are derecognised when they are extinguished or the obligations have expired.

Fair value is defined as the price paid for an asset or for the transfer of a debt in an orderly transaction between market participants at the measurement date.

Financial instruments are initially recognised at fair value plus transaction costs. Quoted market prices form the basis of the subsequent measurement of financial instruments accounted for at fair value. In the absence of a market price or a price quoted on an active market, the future cash flows of a non-option financial instrument are discounted to present value applying an appropriate interest rate (discounted cash flow [DCF] method). Measurement is performed using standard financial valuation techniques. Common options pricing models are used to value options and other financial instruments with similar characteristics, applying current market inputs. Equity instruments are reported at cost if the fair value cannot be reliably measured.

The present value of linear derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards and forward rate agreements) is calculated by discounting the replicating cash flows. Over-the-counter (OTC) currency and interest rate options are measured using common option pricing models such as the Black Scholes or Hull White models (Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13).

Customer swaps are measured using an internal model based on the DCF method, taking account of the current interest rate and basis spread curves. Widespread option valuation models are used in the measurement of embedded options. Counterparty risk and the Bank's exposure to credit risk (credit value adjustment and debt value adjustment) are taken into consideration when calculating the fair value of all unsecured customer derivatives. However, since issuance by customers is at best minimal and it is thus not possible to determine credit spreads on the basis of quoted prices, the credit spreads for instruments with matching maturities are calculated using CDS index curves in line with the customer's credit rating and the sector in which the respective counterparty operates.

3.4 FINANCIAL ASSETS

IAS 39 classifies financial assets into the following categories:

1. Loans and receivables (LAR)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (see Note 6.3 Loans and advances to banks, Note 6.4 Loans and advances to customers and Note 3.8 Lease accounting).

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

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

2. Assets held for trading (HFT)

Financial instruments acquired for the purpose of reselling them in the near term, or forming part of a portfolio that the entity intends to resell in the near term with the objective of generating a profit, must be classified as assets held for trading. This category also includes all derivatives other than those used as hedging instruments.

In the HYPO NOE Group most of the assets classified in this way represent the positive fair value attributable to derivatives used for interest rate or foreign exchange-related transactions (Note 6.6 Assets held for trading).

Measurement is at fair value. Realised and unrealised gains and losses, and measurement gains and losses are recognised in profit or loss (see Note 5.5 Net trading income).

Where available, market prices are applied in the determination of fair value (level 1). In the absence of market prices, fair value is calculated on the basis of observable market inputs (level 2). Unobservable inputs may also be applied (level 3). Detailed information on this item is provided under Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

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

This is a residual category to which all non-derivative financial assets are assigned that are not classified in any other category.

In the case of the HYPO NOE Group these are shares and other variable-income securities, bonds, public debt certificates and other fixed-income securities, holdings in non-consolidated subsidiaries (interest over 50%), holdings in associates (interest of 20-50%) and other investments (interest less than 20%). For further information, see Note 6.8 Available-for-sale financial assets.

Subsequent measurement is at fair value. Measurement gains and losses are recognised in the revaluation reserve (AFS reserve) under other comprehensive income, taking deferred tax into account (statement of changes in equity and statement of comprehensive income).

In the event of disposal of the asset, the difference between amortised cost and the carrying amount recognised in equity, under the AFS reserve (revaluation reserve), is reversed through profit or loss in the statement of comprehensive income. Gains and losses are recognised in profit or loss over the remaining life of the asset using the effective interest method. In the event of impairments attributable to credit ratings, an impairment loss is recognised (see Note 5.8 Net gains or losses on available-for-sale financial assets). If impairment losses are reversed, equity instruments are revalued via the AFS reserve, and debt instruments through profit or loss.

Where available, market prices are applied in the determination of fair value (level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (level 2).Unobservable inputs may also be applied (level 3), and if the fair value cannot be calculated, assets are measured at cost (also level 3).

4. Financial assets designated as at fair value through profit or loss (FVPL)

When the fair value option (FVO) is taken, financial assets that are not held for trading are irrevocably assigned to this category, and are subsequently measured at fair value through profit or loss (see Note 6.9 Financial assets designated as at fair value through profit or loss).

However, this classification may only be made if one of the following criteria is met:

a.) The financial instrument contains one or more significant embedded derivatives;

b.) It eliminates or significantly reduces a measurement or recognition inconsistency;

c.) A group of financial assets and/or financial liabilities is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Measurement is at fair value. Realised gains and losses, and unrealised measurement gains and losses are recognised in profit or loss under net gains or losses on financial assets designated as at fair value through profit or loss (see Note 5.9).

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (Level 2). Unobservable inputs may also be applied (Level 3). Detailed information on this item is given under Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

In the HYPO NOE Group this item includes debt instruments managed by the former HYPO Absolute Return fund, which Management designated as at fair value through profit or loss on initial recognition.

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

Non-derivative financial assets with fixed or determinable payments and fixed maturities normally meet the criteria for assignment to this category. In the case of the Group it consists entirely of bonds, public debt certificates and other fixed income securities.

Designation of investments as held to maturity requires an intention and ability to hold these until maturity.

Measurement is at amortised cost, and gains and losses are amortised over the remaining lives of the assets using the effective interest method. Any impairment losses are recognised in profit or loss.

The HYPO NOE Group has no investments assigned to this category.

3.5 FINANCIAL LIABILITIES

Financial liabilities are classified into the following categories, which are in accordance with IAS 39:

1. Other financial liabilities

This category comprises the financial liabilities, including debt evidenced by certificates, for which the option of measurement at fair value through profit or loss was not taken (liabilities at cost [LAC]) (see Note 6.20 Deposits from banks, Note 6.21 Deposits from customers and Note 6.22 Debts evidenced by certificates).

Measurement is normally at amortised cost. Gains and losses are amortised over the remaining lives of the liabilities using the effective interest method, and are taken to interest expense.

Additional information on the fair value of other financial liabilities measured at amortised cost can be found under Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

2. Liabilities held for trading (HFT)

Financial instruments purchased for the purpose of reselling them in the near term, or forming part of a portfolio that the entity intends to resell in the near term with the objective of generating a profit, must be classified as liabilities held for trading. This category also includes all derivatives other than those used as hedging instruments.

In the HYPO NOE Group most of the assets classified in this way represent the negative fair value attributable to derivatives used to hedge interest rate or foreign exchange related transactions (see Note 6.23 Liabilities held for trading).

Measurement is at fair value. Realised gains and losses, and measurement gains and losses are recognised in profit or loss (Note 5.5 Net trading income).

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is calculated on the basis of observable inputs (Level 2). Unobservable inputs may also be applied (Level 3). Detailed information on this item is provided under Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

3. Financial liabilities designated as at fair value through profit or loss (FVPL)

When the fair value option (FVO) is taken, financial liabilities that are not held for trading are irrevocably assigned to this category, and subsequently measured at value fair through profit or loss. However, this classification may only be made if:

a.) The financial instrument contains one or more significant embedded derivatives

b.) It eliminates or significantly reduces a measurement or recognition inconsistency;

c.) A group of financial assets and/or financial liabilities is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Measurement is at fair value. Realised gains and losses, and measurement gains and losses are recognised in profit or loss.

The HYPO NOE Group has no liabilities assigned to this category.

3.6 EMBEDDED DERIVATIVES

Financial instruments are referred to as "structured products" where they consist of a host contract and multiple embedded derivatives, and the latter are an integral component of the contract and cannot be separately traded.

IAS 39 states that embedded derivatives must be separated from the host contracts and accounted for as separate derivatives if:

- The structured financial instrument is not measured at fair value through profit or loss
- The economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract
- The terms of the embedded derivatives meet the definition of a derivative

Measurement gains and losses are recognised in the statement of comprehensive income. Derivatives that are not subject to the separation requirement are measured together with the host contract, in accordance with the general rules for the category concerned.

3.7 HEDGE ACCOUNTING

Derivatives are measured at fair value. Measurement gains and losses are recognised in profit or loss unless the derivative in question meets the criteria for IFRS cash flow hedge accounting.

The IFRS hedge accounting rules govern the measurement of derivatives that are purchased to hedge an underlying transaction. The latter is classified into one of the categories described above. A hedging relationship exists where the underlying and hedging transaction, and the hedged risk can be specified. The hedging relationship is deemed to exist if the fair value or cash flow changes in the underlying and the hedge largely offset each other (hedge ratio of 80-125%). The effectiveness of the hedge must be reliably measurable, and is monitored on an ongoing basis. The cumulative dollar offset method is used for retrospective measurement of hedge effectiveness, and regression analysis for prospective measurement.

- Fair value hedge: a hedge of the exposure of assets and liabilities to changes in fair value. Gains and losses on measurement of the derivative and the underlying are reported in the statement of comprehensive income, under net gains or losses on hedges (Note 5.10).

The HYPO NOE Group mainly uses fair value hedges. These are employed to hedge the fair value of both assets and liabilities (underlyings). Interest rate risk and currency risk are hedged simultaneously.

Analyses of hedges broken down by the underlying transactions hedged are shown in Note 6.7 Positive fair value of hedges (hedge accounting) and Note 6.24 Negative fair value of hedges (hedge accounting).

3.8 LEASE ACCOUNTING

Additional information on the leasing business can be found under Note 8.3 Leasing disclosures.

The HYPO NOE Group as a lessor

The main determinant of the classification of, and hence the method of accounting for leases is not the legal ownership of the leased property but the substance of the lease. If substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, then under IAS 17 the lease is a finance lease; otherwise it is an operating lease. Most of the lease agreements concluded by the HYPO NOE Group as a lessor are classifiable as finance leases. Consequently, instead of recognising the assets, the present value of the future lease payments is reported under the loans and advances to customers, taking account of any residual values. Agreed lease payments are apportioned between the finance charge, recognised in profit or loss, and the reduction in the outstanding liability.

The HYPO NOE Group as a lessee

All the lease agreements concluded by the HYPO NOE Group as a lessee are operating leases. This means that leased vehicles are not stated as assets in the consolidated statement of financial position. The lease instalments are recognised as administrative expenses (see Note 5.6 Administrative expenses).

3.9 INVESTMENT PROPERTY

Land and buildings held to earn rental income or for capital appreciation are classified as investment property. In cases of mixed occupancy, significant parts of land and buildings used by third parties are reported as investment property provided that the conditions for separate letting or sale are met. Land held for a currently undetermined future use is also reported in this category (see Note 6.11 Investment property).

Investment property is measured at amortised cost. Depreciation is on a straight-line basis, over the normal useful lives of the assets. The following useful lives, which correspond to the actual useful lives of the properties concerned, are applied:

- Buildings and building improvements 25-50 years

Rental income, depreciation, gains and losses on disposal, and any impairment are recognised in profit or loss (Note 5.1 Interest and similar income and Note 5.12 Net gains or losses on other financial investments).

Fair value in 2013 was determined on the basis of independent valuations, using the income approach based on the applicable codes for building components. HYPO NOE Valuation & Advisory GmbH confirmed these valuations for 2015 (see Note 8.1.1 Fair value).

3.10 INTANGIBLE ASSETS, AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets acquired for consideration with determinable useful lives are stated at cost less straight-line amortisation and any impairment losses.

Positive differences (goodwill) arising in the course of business combinations as defined in IFRS 3 are also included under intangible assets. Details are provided under Note 3.1 Basis of consolidation.

Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are reported as property, plant and equipment, and are measured at cost less depreciation.

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

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

◻ Buildings and building improvements	25-50 years
◻ Equipment, fixtures and furnishings	4-10 years
◻ Computer software and hardware	3-5 years

Any indications of impairment in property, plant and equipment, buildings and building alterations are assessed on the basis of expert opinions, and impairments are recognised where necessary. Goodwill is tested for impairment once a year or whenever there is an indication of impairment, and impairment losses are recognised where necessary.

Depreciation and amortisation, and impairments are reported in the statement of comprehensive income (see the summary in Note 5.6 Administrative expenses and the detailed disclosures in Note 5.6.3 Depreciation, amortisation and impairment). Gains and losses on disposal of property, plant and equipment are recognised under net other operating income (Note 5.7).

Professional assessors are responsible for calculating the fair value of land and buildings. When applying the historical cost model, the fair value is only stated when it differs materially from the carrying amount. In the event of any deviation, this is reported in Note 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

3.11 OTHER ASSETS

Other assets (see Note 6.17 for details) largely relates to accruals and deferrals, other non-bank receivables (e.g. trade receivables and amounts due from the tax authorities in respect of other taxes), and property classified as inventory. Property classified as inventory is reported at acquisition or construction cost.

The accounting method used for such property is assessed on the basis of the net realisable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The net realisable value is determined by means of an expert assessment by HYPO NOE Valuation & Advisory GmbH. Costs are estimated on the basis of the implementation costs for the respective project.

Other non-bank receivables are measured at amortised cost.

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

3.12 RISK PROVISIONS

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

The individual impairment allowances are determined on the basis of an assessment of the customer's financial situation, taking into account the Workout Management Unit's current assessment of collateral, the repayment structure and maturities.

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

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

In calculating these risk provisions, all exposures affected by credit risk that are measured at their carrying values (loans and receivables, and financial instruments held to maturity), and all committed lines of credit and contingent liabilities are allocated either to HYPO NOE Gruppe Bank AG or HYPO NOE Landesbank AG. Financial instruments that are not classified as held to maturity and derivatives do not form part of the calculations, as they are measured at fair value.

Housing construction loans backed by the Lower Austrian state government are likewise excluded.

Collective impairment allowances are recognised on the basis of expected losses, taking into account: (a) the risk volume; (b) the historical probability of default (PD); (c) loss given default (LGD) ratios; (d) personal securities for individual customers; and (e) the regulatory risk weightings of special financing arrangements and the period of time between occurrence of the loss and its identification, i.e. the loss identification period (LIP).

The collective impairment allowance is calculated for loans and advances to banks and customers with internal ratings of between 2A and 4E, using the HYPO NOE Group master scale described in the risk report. For 2015, the loss identification period was assumed to be four months for all loans (i.e. the LIP factor is 4/12).

The collective impairment allowance is calculated using the following formula:

Collective impairment allowance = expected loss * LIP factor

Total risk provisions in respect of loans and advances carried as assets are disclosed on the assets side of the consolidated statement of financial position, as a deduction after loans and advances to banks and loans and advances to customers (Note 6.5 Risk provisions and credit provisions). The risk provisions for off-balance-sheet transactions are included under provisions (see Note 6.25). Allocations to and reversals of impairment allowances and risk provisions arising from the lending business are reported in the statement of comprehensive income, under credit provisions (for a detailed analysis, see Note 5.3).

Note 6.5 Risk provisions and credit provisions provides quantified and narrative disclosures on individual and collective customer impairment allowances. Impairment of AFS assets is discussed under Note 3.4 Financial assets.

An overview of credit provisions can be found in Note 5.3, and further information is provided in Note 8.10 Risk management.

3.13 PROVISIONS

Information on provisions can be found in Note 6.25 to the statement of financial position.

Long-term provisions for pensions and similar obligations

There are both defined contribution and defined benefit plans in the HYPO NOE Group. Under the defined contribution schemes, defined contributions are paid to an external fund. As the employer has no legal or other obligation to make additional payments, there is no need to recognise a provision.

There are also defined benefit pension, and termination and jubilee benefit commitments. These plans are unfunded in the sense that the necessary funds are not set aside externally but retained internally. The long-term employee benefit provisions are measured using the projected unit credit method, in accordance with IAS 19. Future obligations are measured on the basis of a report by an independent actuary. Recognition in the consolidated statement of financial position is on the basis of the present value of the defined benefit obligation. Actuarial gains and losses on the termination benefit and pension provision are recognised in equity, under the IAS 19 reserve, and in the statement of comprehensive income, under other comprehensive income. Actuarial gains and losses on the jubilee benefit provision are shown under administrative expenses in the statement of comprehensive income (Note 5.6).

Measurement of the long-term employee benefit provisions was based on the statutory retirement ages of 60 for women and 65 for men.

The discount rate applied to measurement at the end of the reporting period was 2.1% p.a. (2014: 2.0% p.a.). As in previous years, this was determined on the basis of investment-grade industrial bonds and finalised in consultation with experts in the eurozone. Future salary increases of 2.5% p.a. (2014: 2.5%) and future pension increases of 2.0% p.a. (2014: 2.0% p.a.) are assumed. As in 2014, an adjustment of 7.0% p.a. for employee turnover was applied to the jubilee benefit provisions.

Measurement is based on the biometric estimates contained in the latest Austrian actuarial table for pension insurance, AVÖ 2008 – P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, Angestelltenbestand. Use of this table for the measurement of employee benefit obligations is recommended by the Actuarial Association of Austria.

Other provisions

Other provisions are recognised when there is a present obligation as a result of a past event, it is probable that it will be necessary to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Long-term provisions are discounted if the effect is material. The measurement of contingent liabilities and impending losses is based on best estimates. Details of the assumptions used in the estimates and an explanation of the amounts can be found in Note 6.25 Provisions.

This item also includes provisions for credit risks (e.g. unused credit lines, guarantees and provision of collateral).

Allocations to and reversals of Other provisions are mainly shown under net other operating income (Note 5.7). Movements in provisions for credit risks are reported in the statement of comprehensive income under credit provisions (Note 5.3).

3.14 OTHER LIABILITIES

Other liabilities (see Note 6.27) are stated at amortised cost where they relate to accruals and deferrals or sundry other liabilities.

Long-term incentive plan

Since 2012 the HYPO NOE Group has enabled members of top management (key management) to benefit from the Company's long-term profitability and the growth in shareholder value. The long-term incentive plan (LTIP) is an important means of aligning the interests of key management with those of the Company, and gives them a strong incentive to work for its long-term success.

The LTIP takes the form of a phantom share plan which mirrors the value of the Company's shares. Valuation is according to the adapted Viennese method (weighted net asset value and income approach), and value growth is capped at 11% p.a. The eligible plan members are entitled to convert the phantom shares allocated to them into cash after the end of the five-year minimum holding period. This is reported under Note 5.6.1 Staff costs.

3.15 "GENUINE" SALE AND REPURCHASE AGREEMENTS

"Genuine" sale and repurchase agreements are agreements under which the transferor transfers the legal title to assets to the transferee for a specified period, for consideration. At the same time it is agreed that the assets will be retransferred to the transferor at a later date, in return for an agreed sum. In accordance with IAS 39 the transferor continues to recognise the assets as it retains substantially all the risks and rewards of ownership. The transferor recognises a liability, and the transferee a receivable, equal to the amount received/paid. In 2015 the HYPO NOE Group entered into repurchase agreements as a transferor. The amounts concerned are detailed in Note 6.20.2 "Genuine" sale and repurchase agreements (as the transferor).

3.16 CURRENCY TRANSLATION

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

Non-monetary assets and liabilities carried at amortised cost are stated at the exchange rate ruling on the transaction date.

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

3.17 TAX ASSETS AND LIABILITIES

HYPO NOE Gruppe Bank AG is subject to Austrian taxation. Since 2008 use has been made of the option of group taxation, with HYPO NOE Gruppe Bank AG acting as the tax group parent company. To this end, the parent concluded group taxation agreements governing tax contributions, reporting duties and due dates with each group member.

Current and deferred tax assets and liabilities are reported under the respective items in the consolidated statement of financial position (Note 6.16 Tax assets and 6.26 Tax liabilities).

Current tax assets and liabilities are measured at the amount expected to be paid to/recovered from the taxation authorities, on the basis of the current tax rates.

Deferred tax assets and liabilities are measured using the balance sheet liability method, whereby the tax base of an asset is compared with the IFRS carrying amount, and deferred tax recognised for the temporary difference. If a tax liability is probable when the temporary difference reverses, a deferred tax liability is recognised. Deferred tax assets are recognised for temporary differences that result in tax reductions when they reverse. Offsetting of deferred tax assets and liabilities is performed on a company-by-company basis. Pursuant to IAS 12, deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised for tax loss carryforwards if it is likely that sufficient taxable profit will be available. The HYPO NOE Group's tax loss carryforwards are recognised in Austria and are available for use without time limit. The relevant calculations are based on updated budgets, and a distinction is made between realisable and non-realisable tax loss carryforwards. The carrying amounts of deferred tax assets arising from tax loss carryforwards and temporary differences are reviewed at the end of each reporting period.

Deferred tax assets and liabilities are recognised and reversed either in profit or loss, under income tax expense, or in equity (Note 5.13 Income tax expense) if the underlying item is recognised outside profit or loss (e.g. the revaluation reserve for AFS financial instruments).

4. CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows in accordance with IAS 7 shows the change in cash and cash equivalents held by the HYPO NOE Group due to the cash flows from operating, investing and financing activities, and movements in exchange rates. The cash flows from operating activities are presented according to the indirect method.

The cash flows from operating activities mainly relate to cash inflows and outflows arising from loans and advances to banks and customers, and from available-for-sale financial assets, as well as deposits from banks and customers, and debts evidenced by certificates. In adjusting items of profit or loss for the year to corresponding cash flows, non-cash items are removed. The principal adjustments are for depreciation and amortisation, impairment and write-ups and allocations to and reversals of provisions and risk provisions. Gains on disposal of financial assets and property, plant and equipment, which form part of cash flows from investing activities, and other sundry items are also adjusted. Other adjustments primarily includes non-cash items such as measurement gains and losses on investments accounted for using the equity method, on assets and liabilities held for trading, and on hedges, as well as deferred taxes. Taxes and interest paid and dividends received are reported as disclosures supplementary to cash flows from operating activities.

The cash flows from investing activities largely concern cash inflows and outflows from investments in and disposals of property, plant and equipment, and investment property. Differences between these amounts and the additions and disposals reported under Note 6.15 Intangible assets, and property, plant and equipment are the result of timing differences on the payments for asset purchases, and of profits or losses on asset disposals. There were no financial assets held to maturity in 2015 or in the preceding year. The 2014 figures show a minor amount paid for the acquisition of subsidiaries, associates and joint ventures (incl. AFS investments), but there were no significant proceeds from disposals in 2015.

Dividends paid to owners of the parent account for the majority of the cash flows from financing activities; dividends were paid in 2014 but not in 2015.

Cash flows from changes in exchange rates relate to transactions denominated in foreign currencies. The increase in this item was due to the rise in the value of the Swiss franc.

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

5. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

5.1 INTEREST AND SIMILAR INCOME

Net gains or losses on investments accounted for using the equity method are reported separately in the statement of comprehensive income for the first time in 2015. The previous year's figures have been adjusted accordingly.

Interest capitalised by the Group in 2015 amounted to EUR 2,811thsd (2014: EUR 4,406thsd). The average capitalisation rate was 0.98%.

5.1.a Interest and similar income

EUR '000	2015	2014
Interest income from:		
Cash and balances at central banks	6	18
Loans and advances to banks	2,508	4,420
Loans and advances to customers	203,013	217,511
Bonds	56,253	67,828
Hedges (hedge accounting)	187,716	173,459
Other interest income (incl. negative interest)	108.836	105,699
Of which income from investment property	*967*	*1,309*
Rental income	*3,000*	*3,235*
Depreciation	*-2,033*	*-1,926*
Current income from:		
Leases	24,324	25,260
Shares and other variable-income securities	84	95
Other investments	1,017	1,011
Total	**583,757**	**595,302**

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

EUR '000	2015	2014
Interest and similar income from:		
Loans and receivables (LAR)	208,288	224,735
Available-for-sale (AFS) assets	56,962	68,730
Assets measured using the fair value option (FVO)	205	205
Assets held for trading (HFT)	99,973	95,346
Impaired loans and advances (unwinding)	3,275	3,225
Hedges (hedge accounting)	187,716	173,459
Interest income attributable to other periods	221	199
Net gains or losses on investment property:	967	1,309
Rental income	*3,000*	*3,235*
Depreciation	*-2,033*	*-1,926*
Current lease income	24,324	25,260
Current origination and commitment fees	4,121	2,834
Income from loans and advances with negative interest rates	-2.295	-
Total	**583,757**	**595,302**

5.2 Interest and similar expense

5.2.a Interest and similar expense

EUR '000	2015	2014
Interest expense on:		
Liabilities to central banks	-176	-85
Deposits from banks	-12,229	-15,344
Deposits from customers	-24,409	-28,665
Debts evidenced by certificates	-197,876	-209,578
Subordinated capital	-2,228	-3,449
Hedges (hedge accounting)	-119,682	-113,402
Other interest expense (incl. negative interest)	-96,317	-94,870
Total	**-452,917**	**-465,393**

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

EUR '000	2015	2014
Interest expense on:		
Financial liabilities measured at amortised cost (LAC)	-237,349	-257,672
Financial liabilities held for trading (HFT)	-95,986	-94,319
Hedges (hedge accounting)	-119,682	-113,402
Deposits with negative interest rates	100	-
Total	**-452,917**	**-465,393**

5.3 CREDIT PROVISIONS

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

EUR '000	2015	2014
Allocations	**-21,875**	**-30,373**
Individual impairment allowances	-20,671	-27,601
Collective impairment allowances	-1,103	-2,512
Other credit provisions	-101	-260
Reversals	**16,152**	**17,766**
Individual impairment allowances	14,791	15,154
Collective impairment allowances	1,189	2,110
Other credit provisions	172	502
Receipts from impaired assets	**7,156**	**6,310**
Direct write-offs	**-262**	**-420**
Total	**1,171**	**-6,717**

The reduction in credit provisions between 2014 and 2015 was mainly the result of proceeds from the reversal of credit provisions due to effective workout management and the low level of new allocations to individual impairment allowances.

5.4 NET FEE AND COMMISSION INCOME

EUR '000	2015	2014
Fee and commission income	**16,638**	**16,882**
Loans and advances	1,691	1,958
Securities and custody account business	4,536	4,352
Payment transactions	5,777	5,641
Foreign exchange, foreign notes and coins, and precious metals	272	276
Other services	3,617	3,904
Diversification	741	748
Other fee and commission income	4	3
Fee and commission expense	**-2,788**	**-2,903**
Loans and advances	-39	-78
Securities and custody account business	-1,160	-1,268
Payment transactions	-1,127	-1,124
Other services	-15	-19
Diversification	-447	-415
Total	**13,850**	**13,979**

5.5 NET TRADING INCOME

EUR '000	2015	2014
Interest rate transactions	-2,511	-1,171
Foreign exchange transactions	5,753	-1,226
Other transactions	-	582
Total	**3,242**	**-1,815**

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

5.6 ADMINISTRATIVE EXPENSES

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

EUR '000	2015	2014
Staff costs	-67,153	-70,345
Other administrative expenses	-55,979	-48,846
Depreciation, amortisation and impairment	-5,979	-7,901
Total	**-129,111**	**-127,092**

5.6.1 Staff costs

EUR '000	2015	2014
Wages and salaries	-51,349	-54,296
Of which phantom-share-based cash incentives *	*-130*	*-607*
Social security costs	-11,402	-11,341
Cost of voluntary employee benefits	-1,335	-1,385
Retirement benefit costs	-1,597	-1,741
Termination benefit costs	-1,470	-1,582
Of which expenses for provident fund	*-596*	*-600*
Total	**-67,153**	**-70,345**

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

In 2014 staff costs were overstated by EUR 487thsd, as income from the reversal of accrued staff costs was reported under net other operating income. This was corrected in the 2015 financial statements; the previous year's figures were not adjusted.

The majority of the reduction in staff costs resulted from a fall in obligations to employees in connection with variable remuneration.

	2015	2014
Average number of employees (incl. staff on parental leave)	923	910

EUR '000	2015	2014
Salaries of Management Board members	**-863**	**-991**
Short-term employee benefits	-787	-906
Of which current remuneration	*-733*	*-730*
Post-employment benefits	-74	-75
Termination benefits	-2	-10
Supervisory Board members' remuneration (non-employees)	**-78**	**-92**
Supervisory Board members' salaries	**-456**	**-439**
Remuneration of key management personnel (other than the members of the Management Board and Supervisory Board of the parent):	**-4,677**	**-4,669**
Current remuneration	-3,861	-3,830
Short-term employee benefits	-243	-552
Post-employment benefits	-559	-242
Other long-term benefits	-12	-1
Provision for termination benefits	-2	-44

EUR '000	2015	2014
Termination benefit expenses incl. provident fund for:	**-1,470**	**-1,582**
Management Board	-27	-28
Key management personnel	-351	-120
Other employees	-1,092	-1,434
Pension expenses for:	**-1,597**	**-1,741**
Management Board	-63	-62
Key management personnel	-219	-189
Other employees (including former employees)	-1,315	-1,490

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

In 1997 HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG negotiated a works agreement on the provision of retirement, invalidity and surviving dependants' pensions by a pension fund. HYPO NOE Leasing GmbH also concluded such an agreement in 2009.

In order to implement these agreements, pension fund contracts were made with Viktoria Volksbanken Pensionskassen AG.

The contracts oblige the employer to contribute 2.7% of employees' eligible salaries (including administrative costs and plus insurance tax) to the fund. The percentages applicable to senior management personnel are 4%, 6% and 10%. The employer's contributions vest five years after payments begin. Eligibility for employer's contributions is conditional on five years' service; eligible prior service is counted. For 2015 the contributions amounted to EUR 934thsd (2014: EUR 865thsd).

Key management in the HYPO NOE Group comprises "identified staff". In 2014 the Group also disclosed information on "identified staff with less material impact". However, this group was removed from the financial statements following an assessment of the definition of key management personnel under IAS 24. The figures for 2014 have been adjusted.

5.6.2 Other administrative expenses

EUR '000	2015	2014
Premises	-5,517	-6,130
Office and communication expenses	-1,390	-1,311
IT expenses	-8,286	-8,031
Legal and consultancy costs	-6,149	-6,683
Advertising and entertainment costs	-6,002	-5,937
Warranty costs	-630	-983
Other administrative expenses	-28,005	-19,771
Total	**-55,979**	**-48,846**

EUR '000	2015	2014
Legal and consultancy costs include the following fees of the auditors of the consolidated financial statements:		
Annual audit	-618	-573
Other auditing services	-168	-135
Tax advice	-197	-131
Other services	-89	-174

EUR '000	2015	2014
Other administrative expenses include:		
Financial stability contribution (bank tax)	-14,704	-12,937
Deposit insurance fund and resolution fund	-6,553	-
Cost of compliance with company law	-1,221	-1,100
Training costs	-1,213	-806
Vehicle and fleet expenses	-1,131	-1,041
Insurance	-400	-385
Travel expenses	-415	-431
Cost of information procurement and payment transactions	-739	-828
Sundry other administrative expenses	-1,629	-2,243
Total	**-28,005**	**-19,771**

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

In 2014 other administrative expenses were overstated by EUR 864thsd, as income from the reversal of accrued expenses related to administrative expenses was reported under net other operating income. This was corrected in the 2015 financial statements, and the previous year's figures were not adjusted. This amount was broken down as follows: legal and consultancy costs of EUR 281thsd, IT expenses of EUR 220thsd, advertising and entertainment costs of EUR 71thsd, EUR 180thsd related to business premises, and sundry other administrative expenses amounting to EUR 112thsd.

5.6.3 Depreciation, amortisation and impairment

EUR '000	2015	2014
Depreciation and amortisation	**-5,979**	**-6,088**
Intangible assets	-674	-701
Buildings used by Group companies	-1,843	-1,804
Equipment, fixtures and furnishings (incl. low value assets)	-3,462	-3,583
Impairment	**-**	**-1,813**
Intangible assets	-	-417
Of which goodwill	-	*-417*
Land	-	-1,396
Total	**-5,979**	**-7,901**

Impairment losses for 2014 consist of the partial impairment of a particular item of goodwill and of impairment of property, plant and equipment (see also Note 6.13 Intangible assets and Note 6.14 Property, plant and equipment).

5.7 NET OTHER OPERATING INCOME

EUR '000	2015	2014
Other rental income	**281**	**256**
Gains/losses on:	**147**	**97**
Disposal of intangible assets, and property, plant and equipment	147	97
Net gains or losses on recognition and reversal of provisions	**-8,846**	**1,178**
Profit from acquisitions of companies at below fair value	**-**	**273**
Sundry other income/expenses	**33,418**	**21,855**
Sundry other income	47,120	31,382
Sundry other expenses	-13,702	-9,527
Total	**25,000**	**23,659**

In 2015 a loss of EUR 10,866thsd was recognised under net gains or losses on recognition and reversal of provisions to reflect the debt warranty (see the section on credit risk in Note 8.10 Risk management). There were no expenses in the previous reporting period. This item also includes the reversal of provisions for litigation costs (see Note 6.25.1 Movements in provisions).

In 2014 net gains or losses on recognition and reversal of provisions included EUR 1,351thsd related to the reversal of accrued expenses. This amount would have resulted in a reduction of EUR 864thsd in other administrative expenses and of EUR 487thsd in staff costs. This was corrected in the 2015 financial statements, and the previous year's figures were not adjusted. Details are provided under Note 5.6 Administrative expenses.

Sundry other expenses/income includes net losses of EUR 1,019thsd (2014: net gains of EUR 1,079thsd) on currency translation (see Note 5.11 Net gains and losses on financial assets and liabilities).

It also includes gains of EUR 7,172thsd (2014: gains of EUR 7,402thsd) in administrative and intermediation fees,

as well as net gains on debt repurchases of EUR 15,169thsd (2014: EUR 2,139thsd) and net gains of EUR 5,106thsd (2014: EUR 3,671thsd) from purchase price adjustments resulting from early repayments in connection with a loan purchase.

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

EUR '000		2015	2014
Income from financial assets		**2,315**	**191**
Gains on disposal	5.11	2,315	191
Expenses arising from financial assets		**-30,140**	**-65,149**
Losses on disposal	5.11	-2,508	-848
Depreciation, amortisation and impairment		-27,632	-64,301
Total		**-27,825**	**-64,958**

In both 2014 and 2015 impairments were mainly connected with Heta Asset Resolution AG bonds in light of the debt repayment moratorium imposed by the FMA.

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

EUR '000	2015	2014
Net gains or losses on financial assets	**-126**	**44**
Bonds	-126	44
Total	**-126**	**44**

5.10 NET GAINS OR LOSSES ON HEDGES

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

EUR '000	2015	2014
Hedge accounting	**-1,887**	**-2,369**
Net gains or losses on underlying transactions	4,751	157,757
Net gains or losses on hedging instruments	-6,638	-160,126
Total	**-1,887**	**-2,369**

The net loss on hedges is principally attributable to the different discount rates applied to hedges and the related underlying transactions. The different discounting of hedges caused by changed market standards (OIS discounting) produces temporary differences in the results. Derivatives measured at fair value (hedge transactions) predominantly form part of closed positions. To the extent that the other half of the closed position uses a different discount rate, there are differences in the results.

5.11 NET GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

EUR '000		2015	2014
Net realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss		**861**	**-894**
Available-for-sale financial assets	5.8	-193	-657
Loans and receivables (incl. finance leases)	5.12	-6	-7
Other	5.12	1,060	-230
Net gains or losses on financial assets and liabilities held for trading	5.5	**3,242**	**-1,815**
Interest rate instruments and related derivatives		-2,511	-1,172
Foreign exchange trading		5,753	-1,226
Other (incl. hybrid derivatives)		-	583
Gains or losses on financial assets and liabilities measured at fair value through profit or loss	5.9	**-126**	**44**
Gains or losses on hedge accounting	5.10	**-1,887**	**-2,369**
Net gains on currency translation	5.7	**-1,019**	**1,079**
Total		**1,071**	**-3,954**

5.12 NET GAINS OR LOSSES ON OTHER FINANCIAL INVESTMENTS

EUR '000		2015	2014
Net gains/losses on receivables and promissory notes	5.11	**-6**	**-7**
Investment property		**1,255**	**-1,923**
Proceeds from disposals	5.11	1,700	576
Carrying amounts of disposals	5.11	-640	-806
Let investment property		217	-290
Vacant investment property		-22	-1,403
Of which impairment		-	*-1,287*
Total		**1,249**	**-1,930**

The net gain on investment property in 2015 was due to disposals. Impairment losses were the main reason behind the net loss in this item in 2014 (see Note 6.11 Investment property).

5.13 INCOME TAX EXPENSE

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

EUR '000	2015	2014
Current income tax	-2,585	65
Deferred income tax	-2,670	8,757
Total	**-5,255**	**8,822**

A reconciliation of the expense that would result from applying the standard rate of corporation tax to the actual reported tax expense is shown below.

EUR '000	2015	2014
Profit/loss for the year before tax	11,659	-39,810
x income tax rate	25%	25%
= anticipated income tax expense	**-2,915**	**9,953**
Reductions in tax liability	**759**	**781**
Tax-free income from investments	327	188
Other tax-free income	432	593
Increases in tax liability	**-2,727**	**-1,880**
Non-deductible expenses	-1,123	-470
Investments accounted for using the equity method	-1,604	-1,410
Tax effects of other differences	**-372**	**-31**
Adjustments to and non-recognition of deferred tax	-158	-5
Previous years	-212	-34
Prepayments	-10	-11
Other adjustments	8	20
Total	**-5,255**	**8,822**

Net deferred tax liabilities of EUR -1,449thsd (2014: EUR 17,143thsd) were recognised directly in equity. The basis for non-recognition of deferred tax in profit or loss for associates and joint ventures is EUR 6,415thsd (2014: EUR 5,641thsd).

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

Note 6.16 Tax assets and Note 6.26 Tax liabilities provide a detailed analysis of the deferred tax assets and liabilities.

5.14 NON-CONTROLLING INTERESTS

EUR '000	2015	2014
FORIS Grundstückvermietungs Gesellschaft m.b.H.	-13	1
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	58	-843
LITUS Grundstückvermietungs Gesellschaft m.b.H.	-29	-87
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-108	-42
Adoria Grundstückvermietungs Gesellschaft m.b.H.	-	63
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-12	46
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	-21	41
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	-122	312
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-10	63
Josef-Heinzl-Gasse 1 Immobilienentwicklung GmbH	-1	16
Neustift-am-Walde 32 Immobilienentwicklung GmbH	-	9
Haymogasse 102 Immobilienentwicklung GmbH	-1	33
Hauptplatz 18 Entwicklungs- und Verwertungs GmbH	8	38
Total	**-252**	**-350**

6. NOTES TO THE STATEMENT OF FINANCIAL POSITION

6.1 CASH AND BALANCES AT CENTRAL BANKS

"Cash and balances at central banks" comprises cash on hand and balances at central banks that are repayable on demand. The balances are shown at nominal value.

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Cash on hand	13,508	14,316
Balances at central banks	55,478	84,709
Total	**68,986**	**99,025**

6.2 LOANS AND ADVANCES

The "Loans and advances to banks" and "Loans and advances to customers" items largely relate to loans, lease receivables (see also Note 8.3 Leasing disclosures), overnight money and time deposits, and unlisted securities. The items include accrued interest but are gross of impairment losses (see Note 6.3 Loans and advances to banks and Note 6.4 Loans and advances to customers). Measurement is at amortised cost and the net present value of lease receivables.

Interest income is reported under Note 5.1 Interest and similar income.

The current risk situation is discussed in detail in Note 8.10 Risk management.

6.3 LOANS AND ADVANCES TO BANKS

EUR '000	31 Dec. 2015	31 Dec. 2014
Domestic banks	115,777	244,571
Foreign banks		
CEE	1,458	757
Rest of the world	804,856	698,718
Total	**922,091**	**944,046**

6.4 LOANS AND ADVANCES TO CUSTOMERS

6.4.1 Customer group analysis

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

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

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

The retail customers group also includes purchased subsidised home loans.

EUR '000	31 Dec. 2015	31 Dec. 2014
Public sector customers	5,606,235	5,449,024
Business customers	2,051,636	1,832,533
Housing developers	1,543,237	1,526,537
Retail customers	2,290,827	2,319,423
Professionals	65,352	66,549
Total	**11,557,287**	**11,194,066**

6.4.2 Geographical analysis

EUR '000	31 Dec. 2015	31 Dec. 2014
Domestic customers	10,153,127	9,910,611
Foreign customers		
CEE	527,351	509,806
Rest of the world	876,809	773,649
Total	**11,557,287**	**11,194,066**

6.5 RISK PROVISIONS AND CREDIT PROVISIONS

Loans and advances to customers includes interest-free loans and advances of EUR 136,250thsd, of which the unsecured portion of EUR 35,769thsd was impaired (2014: EUR 65,398thsd, of which EUR 40,898thsd was impaired).

Additional explanations are given in Note 3.12 Risk provisions and Note 8.10 Risk management.

6.5.1 Analysis of risk provisions and credit provisions by customer group

"Unwinding" refers to interest income from impaired loans and advances.

The "Other changes" column reflects customer reclassifications, e.g. from retail to business where customers become self-employed, or vice versa (e.g. when self-employment ceases due to retirement).

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

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

6.5.2 Geographical analysis of risk provisions

EUR '000	31 Dec. 2015	31 Dec. 2014
Domestic	-68,322	-78,809
Foreign		
CEE	-12,327	-14,978
Rest of the world	-19,774	-14,775
Total risk provisions	**-100,423**	**-108,562**

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

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

The tables show the value of the collateral as calculated for regulatory purposes. The receivables of the leasing subsidiary, amounting to some EUR 2,206,586thsd (2014: EUR 2,007,847thsd), are shown gross of collateral.

31 Dec. 2015, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Gross carrying amount (not individually impaired)	13,262,518	118,418	2,849	13,383,785
Gross carrying amount (individually impaired)	170,421	7,672	224,267	402,360
Gross carrying amount	**13,432,939**	**126,090**	**227,116**	**13,786,145**
Of which secured by mortgages				1,834,402
Of which loans secured in other ways				48,335
Of which financial guarantees received				3,074,302
Collective impairment allowances	-4,890	-215	-5	-5,110
Individual impairment allowances	-42,269	-2,230	-50,814	-95,313
Net carrying amount	**13,385,780**	**123,645**	**176,297**	**13,685,722**

31 Dec. 2014, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Gross carrying amount (not individually impaired)	13,046,372	122,464	15,336	13,184,172
Gross carrying amount (individually impaired)	301,111	8,669	69,900	379,680
Gross carrying amount	**13,347,482**	**131,133**	**85,236**	**13,563,851**
Of which secured by mortgages				1,563,091
Of which loans secured in other ways				42,513
Of which financial guarantees received				2,985,769
Collective impairment allowances	-5,035	-135	-27	-5,197
Individual impairment allowances	-39,647	-6,575	-57,143	-103,365
Net carrying amount	**13,302,800**	**124,423**	**28,066**	**13,455,289**

In 2015 collateral seized with the intention of disposal totalled only EUR 56thsd. In 2014 there were no such events, and collateral was reported under "Other assets" (Note 6.17).

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

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

31 Dec. 2014, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Risk provisions for customers: individual impairment allowances	**-39,647**	**-6,575**	**-57,143**	**-103,365**
General governments	-4,661	-	-	-4,661
Other financial corporations	-122	-	-313	-435
Non-financial corporations	-30,133	-6,093	-33,819	-70,045
Households	-4,731	-482	-23,011	-28,224
Risk provisions for customers and banks: collective impairment allowances	**-5,035**	**-135**	**-27**	**-5,197**
Total risk provisions	**-44,682**	**-6,710**	**-57,170**	**-108,562**

6.5.4 Forborne exposures

The tables below show the changes in forborne exposures, as well as breakdowns by region, business segment, rating class and maturity. The disclosures comprise forborne instalments and arrears. See Note 8.10 Risk management for a narrative discussion.

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

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

Breakdown by region

EUR '000	31 Dec. 2015	31 Dec. 2014
Domestic customers	28,097	28,838
Foreign customers		
CEE	46,392	56,271
Rest of the world	26,200	15,616
Total	**100,690**	**100,724**

Breakdown by segment

EUR '000	31 Dec. 2015	31 Dec. 2014
Gruppe Bank	76,205	77,549
Landesbank	24,485	23,175
Total	**100,690**	**100,724**

Breakdown by rating

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

31 Dec. 2014, EUR '000	Not past due and not individually impaired	Not past due but individually impaired	Overdue for less than 90 days	Overdue for more than 90 days	Total	Collateral received
Rating class 3	-871	-	-	-	-871	662
Rating class 4	-5,683	-	-318	-	-6,002	4,083
Rating class 5	-5,210	-82,444	-4,290	-1,907	-93,851	6,521
Total	**-11,764**	**-82,444**	**-4,608**	**-1,907**	**-100,724**	**11,265**

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

31 Dec. 2014, EUR '000	Not past due	Overdue for less than 90 days	Overdue for more than 90 days	Total	Collateral received
Gross carrying amount (not individually impaired)	11,765	318	555	12,638	7,427
Gross carrying amount (individually impaired)	82,444	4,290	1,352	88,086	3,838
Collective impairment allowances	-36	-1	-	-37	-
Individual impairment allowances	-26,567	-4,158	-1,188	-31,913	-
Net carrying amount	**67,606**	**449**	**719**	**68,774**	**11,265**

6.6 ASSETS HELD FOR TRADING

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

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Positive fair value of derivative financial instruments (banking book)		
Interest rate derivatives	553,839	648,003
Foreign exchange derivatives	20,880	4,992
Other assets held for trading	12,092	-
Total	**586,811**	**652,995**

6.7 POSITIVE FAIR VALUE OF HEDGES (HEDGE ACCOUNTING)

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

Measurement gains and losses on fair value hedges are recognised in profit or loss, under net gains or losses on hedges (Note 5.10).

Current income from hedges is reported under Note 5.1 Interest and similar income.

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Assets	**2,449**	**3,591**
Loans and advances to banks	664	1,565
Loans and advances to customers	926	1,184
Financial assets	859	842
Liabilities	**507,009**	**660,236**
Deposits from banks	1,139	2,208
Deposits from customers	36,191	46,284
Debts evidenced by certificates	469,679	611,744
Total	**509,458**	**663,827**

6.8 AVAILABLE-FOR-SALE FINANCIAL ASSETS

This item mainly relates to bonds and other fixed-income securities.

It also includes AFS equities and other variable-income securities, holdings in unconsolidated subsidiaries, and equity investments not held for sale. For additional information see Note 3.4 Financial assets, point 3. Available-for-sale financial assets (AFS).

Gains and losses on disposal, and measurement gains and losses are reported under net gains and losses on available-for-sale assets (Note 5.8).

EUR '000	31 Dec. 2015	31 Dec. 2014
Other equity instruments	4,020	3,940
Bonds	2,096,613	2,237,566
Interests in non-consolidated subsidiaries (over 50%)	931	162
Interests in associates (20-50%)	477	477
Other investments	2,297	3,264
Total	**2,104,338**	**2,245,409**

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

This item is confined to financial assets that were designated as at fair value through profit or loss on initial recognition. See narrative Note 3.4 Financial assets, point 4. Financial assets designated as at fair value through profit or loss (FVPL).

EUR '000	31 Dec. 2015	31 Dec. 2014
Bonds	4,118	4,244
Total	**4,118**	**4,244**

6.10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Banks	2,012	1,828
Non-banks	18,925	25,277
Total	**20,937**	**27,105**

Losses of EUR 132thsd (31 Dec. 2014: EUR 174thsd) were not recognised through profit or loss. In 2015 these accumulated losses fell by EUR 42thsd, whereas they rose by EUR 109thsd in 2014. None of the companies accounted for using the equity method as at 31 December 2015 – or at the end of the previous year – were listed.

6.11 INVESTMENT PROPERTY

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

Rental income in the period under review was EUR 3,000thsd (2014: EUR 3,235thsd).

EUR '000	31 Dec. 2015	31 Dec. 2014
Investment property	68,704	67,752

The fair value of investment properties as at 31 December 2015 was EUR 76,524thsd (31 Dec. 2014: EUR 71,584thsd). Additional information on this item is given under 8.1 Fair value disclosures in accordance with IFRS 7 and IFRS 13.

The changes in investment property are shown in the table below.

6.12 MOVEMENTS IN FINANCIAL ASSETS

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

In 2015 and 2014 there were transfers between property, plant and equipment, and investment property.

The impairment of investment property in 2014 related to a property in Vienna.

As in the previous year, the net loss on investments accounted for using the equity method was chiefly attributable to the remeasurement of the EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft sub-group (detailed disclosures in Note 3.2.3 Associates and joint ventures).

		Cost							
EUR '000	Note	1 Jan. 2015	Changes in scope of consolidation	Additions	Disposals	Transfers	Other changes	Changes from measurement at fair value not through profit or loss	31 Dec. 2015
Available-for-sale financial assets	6.8	7,364	-	805	-1,008	-	-	-	7,161
Investments accounted for using the equity method	6.10	14,473	-	10	-103	-	-	-	14.380
Investment property	6.11	79,057	-	3,803	-2,189	-97	-	-	80,574
Total financial investments		**100,894**	**-**	**4,618**	**-3,300**	**-97**	**-**	**-**	**102,115**

		Cost							
EUR '000	Note	1 Jan. 2014	Changes in scope of consolidation	Additions	Disposals	Transfers	Other changes	Changes from measurement at fair value not through profit or loss	31 Dec. 2014
Available-for-sale financial assets	6.8	7,455	470	35	-1,000	408	-	-4	7,364
Investments accounted for using the equity method	6.10	16,563	-695	220	-1,207	-408	-	-	14,473
Investment property	6.11	72,233	-	3,449	-861	4,247	-11	-	79,057
Total financial investments		**96,251**	**-225**	**3,704**	**-3,068**	**4,247**	**-11**	**-4**	**100,894**

Depreciation and adjustments (+/-) to investments accounted for using the equity method								Carrying amount	
1 Jan. 2015	Changes in scope of consolidation	Depreciation and adjust-ments (+/-) to investments accounted for using the equity method	Impairments	Write-ups	Transfers	Disposals	31 Dec. 2015	1 Jan. 2015	31 Dec. 2015
-3,461	-	-	-15	-	-	20	-3,456	3,903	3,705
12,632	-436	4,446	-10,177	5	-	87	6,557	27,105	20,937
-11,305	-	-2,033	-	-	-	1,468	-11,870	67,752	68,704
-2,134	**-436**	**2,413**	**-10,192**	**5**	**-**	**1,575**	**-8,769**	**98.760**	**93,346**

Depreciation and adjustments (+/-) to investments accounted for using the equity method								Carrying amount	
1 Jan. 2014	Changes in scope of consolidation	Depreciation and adjust-ments (+/-) to investments accounted for using the equity method	Impairments	Write-ups	Transfers	Disposals	31 Dec. 2014	1 Jan. 2014	31 Dec. 2014
-3,734	687	-	-418	4	-	-	-3,461	3,721	3,903
27,873	-7,409	-2,924	-5,033	125	-	-	12,632	44,436	27,105
-6,688	-	-1,953	-1,287	-	-1,432	55	-11,305	65,545	67,752
17,451	**-6,722**	**-4,877**	**-6,738**	**129**	**-1,432**	**55**	**-2,134**	**113,702**	**98.760**

6.13 INTANGIBLE ASSETS

Intangible assets acquired for consideration such as software, and positive differences (goodwill) arising in the course of business combinations as defined in IFRS 3 are reported here. Details are provided under Note 3.1 Basis of consolidation and Note 3.10 Intangible assets, and property, plant and equipment.

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Intangible assets		
Software	983	924
Goodwill	428	428
Total intangible assets	**1,411**	**1,352**

The goodwill arising on the acquisition of HYPO NOE First Facility GmbH in 2012 was tested for impairment, applying HYPO NOE Group's standard rules and procedures. The forecasts provided by management were based on historical performance data, the current situation of the company and market developments, and were found to be reasonable. No need to recognise impairment was identified (31 Dec. 2014: impairment of EUR 417thsd).

HYPO NOE First Facility GmbH's goodwill was subjected to a sensitivity analysis assuming a change in the discount rate and a decline in operating profit.

6.14 PROPERTY, PLANT AND EQUIPMENT

Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are reported as property, plant and equipment. For details see Note 3.10 Intangible assets, and property, plant and equipment. The additions and disposals reflect the various carrying amounts, and the related cash flows are shown in the consolidated statement of cash flows, under cash flows from investing activities.

Property, plant and equipment	31 Dec. 2015	31 Dec. 2014
Land and buildings	67,981	68,342
IT equipment	672	439
Equipment, fixtures and furnishings	11,444	12,052
Other property, plant and equipment	62	80
Total property, plant and equipment	**80,159**	**80,913**

The carrying amount of land as at 31 December 2015 was EUR 17,332thsd (2014: EUR 17,287thsd).

6.15 INTANGIBLE ASSETS, AND PROPERTY, PLANT AND EQUIPMENT

In 2015 and 2014 there were transfers between property, plant and equipment, and investment property. The impairment recognised in 2014 concerned land in St. Pölten used by the Group.

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

	Cost					
EUR '000	1 Jan. 2014	Additions	Disposals	Transfers	Other changes	31 Dec. 2014
Intangible assets						
Software	6.460	298	-120	-	-	6,638
Goodwill	877	-	-	-	-	877
Total intangible assets	**7,337**	**298**	**-120**	**-**	**-**	**7,515**
Property, plant and equipment						
Land and buildings	83,543	1,348	-588	-4,305	11	80,009
IT equipment	3,741	405	-204	-	-	3,942
Equipment, fixtures and furnishings	35.210	2,555	-1,107	58	-	36,716
Other property, plant and equipment	58	66	-19	-	-	105
Total property, plant and equipment	**122,552**	**4,374**	**-1,918**	**-4,247**	**11**	**120,772**

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

Depreciation and adjustments (+/-) to investments accounted for using the equity method						Carrying amount	
1 Jan. 2014	Depreciation and amortisation	Impairments	Transfers	Disposals	31 Dec. 2014	1 Jan. 2014	31 Dec. 2014
-5,133	-701	-	-	120	-5,714	1,327	924
-32	-	-417	-	-	-449	845	428
-5,165	**-701**	**-417**	**-**	**120**	**-6,163**	**2,172**	**1,352**
-10,451	-1,804	-1,396	1.490	494	-11,667	73,092	68,342
-3,204	-493	-	-	194	-3,503	537	439
-22,426	-3,053	-	-58	873	-24,664	12,784	12,052
-11	-26	-	-	12	-25	47	80
-36,092	**-5,376**	**-1,396**	**1,432**	**1,573**	**-39,859**	**86.460**	**80,913**

6.16 TAX ASSETS

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Current tax assets	19,653	10,856
Deferred tax assets	2,105	2,417
Total	**21,758**	**13,273**

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Loans and advances to customers	2,392	2,047
Risk provisions	57	45
Financial investments	23	99
Property, plant and equipment	30	22
Other assets	-	41
Debts evidenced by certificates	6,426	8,882
Liabilities held for trading	11	2
Provisions	873	1,477
Other liabilities	1,314	1,116
Subordinated capital	128	145
Tax loss carryforwards	3,654	4,052
Deferred tax assets before offsetting	**14,907**	**17,929**
less deferred tax liabilities	-12,802	-15,512
Reported net deferred tax assets	**2,105**	**2,417**

No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 19,229thsd (2014: EUR 18,898thsd).

6.17 OTHER ASSETS

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Accruals and deferrals	1,444	1,547
Other receivables and assets	48,566	36,985
Of which value added tax (VAT) and other tax credits (other than income tax)	*12,408*	*8,658*
Of which property classified as inventory	*16,221*	*13,916*
Of which trade receivables	*11,589*	*9,379*
Of which collateral seized with the intention of disposal	*56*	*-*
Total	**50,010**	**38,532**

6.18 NON-CURRENT ASSETS HELD FOR SALE (IFRS 5)

This item includes assets arising from disposals and not generated through continued use. Classification under this item only takes place if a non-current asset or disposal group is available for sale immediately in its current condition and disposal is highly likely. If the Management Board undertakes to make a disposal it is assumed that the latter will take place within one year of classification.

Recognition is at the lower of the carrying amount or fair value, less costs to sell.

In the event that the Group has committed to a disposal resulting in the sale of an investment in a company accounted for using the equity method, the investment is classified as held for sale, provided that the above conditions are met. Use of the equity method is terminated at this point.

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

The first quarter of 2015 saw the completion of the disposal of HYPO Capital Management AG, a company formerly accounted for using the equity method which had been included in non-current assets held for sale under IFRS 5 in 2014.

The value of the put option, at EUR 583thsd, is recognised in profit and loss under net trading income (Note 5.5), and the deferred tax of EUR 146thsd under income tax expense (Note 5.13).

6.19 DEPOSITS

Deposits from banks and customers, including debts evidenced by certificates, are carried at amortised cost (see Note 6.20 Deposits from banks, Note 6.21 Deposits from customers and Note 6.22 Debts evidenced by certificates). Gains and losses on debts evidenced by certificates are amortised at constant effective rates of interest over the maturities of the liabilities.

Interest expense is reported under interest and similar expense (Note 5.2).

Where hedge accounting is applied, the movements in the fair value of the underlying are recognised in profit or loss, under net gains or losses on hedges (Note 5.10).

6.20 DEPOSITS FROM BANKS

6.20.1 Geographical analysis

EUR '000	31 Dec. 2015	31 Dec. 2014
Domestic banks	791,261	884,506
Foreign banks		
CEE	74,927	78,903
Rest of the world	1,351,307	1,664,321
Total	**2,217,495**	**2,627,730**

The deposits from banks include "genuine" sale and repurchase agreements entered into by the Group (as the transferor).

6.20.2 "Genuine" sale and repurchase agreements (as the transferor)

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

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

A tri-party repo is a repurchase agreement between two commercial banks, the seller (transferor) and buyer (transferee), under which the collateral (securities) is delivered to a tri-party agent which also receives the cash and transfers it to the seller. During the term of a tri-party repo, legal title to the securities concerned passes from the transferor to the transferee. The economic ownership (cash flows, risks and opportunities) remains with the transferor.

In the case of collateralised loans from the ECB and OeNB, the collateral (securities or credit claims) is transferred from the commercial banks to the central bank. The commercial banks receive liquid funds in return, in the form of central bank money. The collateral remains their property.

As of 31 December 2015 the carrying amount of the securities transferred was EUR 1,219,083thsd (31 Dec. 2014: EUR 1,208,582thsd).

EUR '000	31 Dec. 2015	31 Dec. 2014
Liabilities to banks under repo agreements	605,000	770,000

6.21 DEPOSITS FROM CUSTOMERS

6.21.1 Customer group analysis

EUR '000	31 Dec. 2015	31 Dec. 2014
Savings deposits	**838,918**	**854,071**
Demand and time deposits	**2,421,938**	**1,450,985**
Public sector customers	477,116	214,697
Business customers	1,476,815	848,615
Housing developers	76,476	40,263
Retail customers	343,329	309,162
Professionals	48,202	38,248
Total	**3,260,856**	**2,305,056**

6.21.2 Geographical analysis

EUR '000	31 Dec. 2015	31 Dec. 2014
Domestic customers	2,547,348	1,746,874
Foreign customers		
CEE	39,944	14,984
Rest of the world	673,564	543,198
Total	**3,260,856**	**2,305,056**

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

EUR '000	Trustee savings deposits	Guaranteed by the state government	Requiring coverage	Cover assets	Surplus coverage
31 Dec. 2015	4,727	252	4,476	9,834	5,358
31 Dec. 2014	4,531	314	4,217	5,635	1,418

6.22 DEBTS EVIDENCED BY CERTIFICATES

EUR '000	31 Dec. 2015	31 Dec. 2014
Covered and municipal bonds	4,115,458	3,836,026
Other bonds	4,050,119	4,717,027
Profit-sharing certificates	260	258
Total	**8,165,837**	**8,553,311**

Debts evidenced by certificates included new issues, floated during the reporting period, worth EUR 523,371thsd (2014: EUR 1,084,583thsd). The Group repurchased EUR 909,917thsd of issued debt.

6.23 LIABILITIES HELD FOR TRADING

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

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Negative fair value of derivative financial instruments (banking book)		
Interest rate derivatives	497,468	581,775
Foreign exchange derivatives	19,501	9,365
Total	**516,969**	**591,140**

6.24 NEGATIVE FAIR VALUE OF HEDGES (HEDGE ACCOUNTING)

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

Measurement gains and losses on fair value hedges are recognised in profit or loss, under "Net gains or losses on hedges" (Note 5.10).

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Assets	**715,307**	**862,200**
Loans and advances to customers	575,130	689,351
Available-for-sale financial assets	140,177	172,849
Liabilities	**25,655**	**15,667**
Deposits from banks	16	387
Deposits from customers	-	427
Debts evidenced by certificates	25,639	14,853
Total	**740,962**	**877,867**

6.25 PROVISIONS

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Employee benefit provisions	**36,959**	**38,342**
Provisions for pensions	23,571	25,172
Provisions for termination benefits	11,377	11,553
Provisions for jubilee benefits	2,011	1,617
Credit provisions	**3,398**	**3,469**
Other provisions	**15,437**	**7,480**
Total	**55,794**	**49,291**

6.25.1 Movements in provisions

Provisions are liabilities of uncertain timing or amount. Provisions are recognised when there is a present obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation.

Other provisions are measured on the basis of estimates by independent experts, in the light of the Bank's experience, and using discounted cash flow methods. The carrying amounts reflect best estimates of the expenditure required to settle the obligations. The maturity analyses did not reveal any significant interest rate effects.

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

The increased allocation to the "Other provisions" item is explained by the allocation of EUR 10,866 to the provisions to cover the debtor warrant (see the section on credit risk in Note 8.10 Risk management). Because of the debtor warrant, no maturity has been assigned to this provision; the interest effect is immaterial.

Other provisions contain litigation costs, including EUR 3,341thsd (2014: EUR 6,979thsd) in dispute. The provisions against legal risks from pending proceedings connected with derivatives and credit restructuring in place at the end of 2014 were largely either fully utilised or reversed during the reporting period. A decision on the remainder is expected within the next 12 months.

EUR '000	1 Jan. 2014	Allocations	Utilisation	Reversals	Discount unwinding effect	31 Dec. 2014
Employee benefit provisions	**38,040**	**795**	**-2,127**	**-**	**1,634**	**38,342**
Provisions for pensions	24,808	45	-1,669	-	1,988	25,172
Provisions for termination benefits	11,678	609	-340	-	-394	11,553
Provisions for jubilee benefits	1,554	141	-118	-	40	1,617
Credit provisions	**4,690**	**260**	**-979**	**-502**	**-**	**3,469**
Other provisions	**7,632**	**849**	**-191**	**-810**	**-**	**7,480**
Total	**50,362**	**1,904**	**-3,297**	**-1,312**	**1,634**	**49,291**

6.25.2 Disclosures on employee benefits

Defined benefit obligation (DBO) is the present value of the benefit entitlements earned by employees up to the end of the reporting period.

Current service cost (CSC) shows the increase in the benefit obligation resulting from employees' service during the reporting period.

Interest cost (INT) is the effect on the DBO of the interest contribution, determined by the discount rate.

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

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

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

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

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

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Present value of DBO at 31 Dec. 2013	**24,807**	**11,678**	**1,554**	**38,039**
Service cost	45	609	141	795
Interest cost	746	369	51	1,166
Payments	-1,669	-340	-118	-2,127
Actuarial gains and losses recognised in profit or loss	-	-	-11	-11
Actuarial gains and losses not recognised in profit or loss	1,243	-763	-	480
Present value of DBO at 31 Dec. 2014	**25,172**	**11,553**	**1,617**	**38,342**
Service cost	46	582	144	772
Interest cost	504	243	35	782
Payments	-1,623	-706	-141	-2,470
Actuarial gains and losses recognised in profit or loss	-	-	356	356
Actuarial gains and losses not recognised in profit or loss	-528	-295	-	-823
Present value of DBO at 31 Dec. 2015	**23,571**	**11,377**	**2,011**	**36,959**

The average duration of the pension obligation is 14.4 years, that of the termination benefit obligation is 10.3 years, and the weighted average duration of both obligations is 13.1 years.

Assumptions underlying employee benefit calculations

The first table shows the present value of the defined benefit obligation (DBO) in respect of pensions, termination benefits and jubilee benefits as at 31 December 2015, and the service cost and interest cost, as well as the assumptions for 2015 (discount rate, salary increases and pension increases) on which the calculations are based. The amounts for members of the Supervisory and Management Boards and for key management are also shown.

These DBOs are subject to longevity and discount rate risk.

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

The first two calculations show the sensitivity to a change in the discount rate (+0.25%/-0.25%) with the remaining parameters unchanged The others show the effects of the following assumptions: salary increases or reductions of 0.25%, pension increases or reductions of 0.25%, and a rise or fall of one year in life expectancy, while the remaining parameters are unchanged.

The last line of the table estimates DBO if the parameters remain unchanged from the previous year’s.

Reported present value of defined benefit obligation (DBO)

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Carrying amounts as at 31 Dec. 2015				
Discount rate 2.1%, salary increase 2.5%, pension increase 2.5%				
DBO	23,571	11,377	2,011	36,959
Current service cost (CSC) (2016 forecast)	57	757	285	1,099
Interest cost (INT) (2016 forecast)	496	353	76	925
Of which Supervisory and Management boards				
DBO	754	1,058	27	1,839
CSC (2016 forecast)	19	13	1	33
Interest cost (2016 forecast)	16	22	1	39
Of which key management staff (identified staff I)				
DBO	-	364	42	406
CSC (2016 forecast)	-	12	4	16
Interest cost (2016 forecast)	-	8	1	9

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

Provision for pensions, EUR '000	DBO
Carrying amounts as at 31 Dec. 2015: +0.25% discount rate Discount rate 2.35%; salary increase 2.5%; pension increase 2.0%	22,940
Carrying amounts as at 31 Dec. 2015: -0.25% discount rate Discount rate 1.85%; salary increase 2.5%; pension increase 2.0%	24,236
Carrying amounts as at 31 Dec. 2015: +0.25% salary increase Discount rate 2.1%; salary increase 2.75%; pension increase 2.0%	23,608
Carrying amounts as at 31 Dec. 2015: -0.25% salary increase Discount rate 2.1%; salary increase 2.25%; pension increase 2.0%	23,537
Carrying amounts as at 31 Dec. 2015: +0.25% pension increase Discount rate 2.1%; salary increase 2.5%; pension increase 2.25%	25,781
Carrying amounts as at 31 Dec. 2015: -0.25% pension increase Discount rate 2.1%; salary increase 2.5%; pension increase 1.75%	24,589
Carrying amounts as at 31 Dec. 2015: +1 year life expectancy Discount rate 2.1%; salary increase 2.5%; pension increase 2.0%	24,196
Carrying amounts as at 31 Dec. 2015: -1 year life expectancy Discount rate 2.1%; salary increase 2.5%; pension increase 2.0%	22,975
Carrying amounts as at 31 Dec. 2015: previous year's discount rate Discount rate 2.0%; salary increase 2.5%; pension increase 2.5%	23,827

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

Provision for termination benefits, EUR '000	DBO
Carrying amounts as at 31 Dec. 2015: +0.25% discount rate Discount rate 2.35%; salary increase 2.5%; pension increase 2.0%	11,104
Carrying amounts as at 31 Dec. 2015: -0.25% discount rate Discount rate 1.85%; salary increase 2.5%; pension increase 2.0%	11,660
Carrying amounts as at 31 Dec. 2015: +0.25% salary increase Discount rate 2.1%; salary increase 2.75%; pension increase 2.0%	11,693
Carrying amounts as at 31 Dec. 2015: -0.25% salary increase Discount rate 2.1%; salary increase 2.25%; pension increase 2.0%	11,071
Carrying amounts as at 31 Dec. 2015: previous year's discount rate Discount rate 2.0%; salary increase 2.5%; pension increase 2.5%	11,489

The HYPO NOE Group does not have any plan assets.

6.26 TAX LIABILITIES

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Current tax liabilities	10,073	10,753
Deferred tax liabilities	34,434	30,651
Total	**44,507**	**41,404**

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

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Loans and advances to customers	171,142	196,182
Risk provisions	783	1,131
Assets held for trading	134,176	152,161
Positive fair value of hedges (hedge accounting)	125,572	162,983
Financial investments	41,872	47,753
Other assets	-	3,334
Provisions	566	3,695
Deferred tax liabilities before offsetting	**474,110**	**567,239**
Less deferred tax assets	-439,676	-536,588
Reported net deferred tax liabilities	**34,434**	**30,651**

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

6.27 OTHER LIABILITIES

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Accruals and deferrals	26,461	13,724
Sundry other liabilities	79,836	90,652
Of which trade payables	*21,474*	*24,771*
outstanding invoices	*26,802*	*36,752*
VAT and other tax liabilities (other than income tax)	*6,659*	*5,520*
legal and consultancy costs	*1,943*	*2,916*
phantom-share-based cash incentives	*1,736*	*1,606*
Total	**106,297**	**104,376**

6.28 SUBORDINATED CAPITAL

Subordinated liabilities and supplementary capital are reported as subordinated capital.

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

EUR '000	31 Dec. 2015	31 Dec. 2014
Subordinated capital	205,449	206,059
Of which subordinated loans	*1,453*	*1,453*

6.29 EQUITY

As was the case a year earlier, at 31 December 2015 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 2015 the share capital (issued capital) of HYPO NOE Gruppe Bank AG was also unchanged, at EUR 51,980,500; it is currently fully paid-up. Every share confers the right to one vote. In 2014 a dividend of EUR 11,000,000 was paid to the owners. This corresponds to a rounded-up dividend yield of EUR 1.54 per share. Management proposes the distribution of EUR 2,000,000 in dividends in 2016.

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

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

The retained earnings reserves required by statute and the articles of association, and the other retained earnings, as well as the liability reserve pursuant to section 57(5) Banking Act, and consolidated profit/loss (comprising the accumulated profit or loss brought forward, the profit or loss for the year, and dividends) are reported under retained earnings. The differences arising from first-time adoption of IFRS, which were offset against equity, are also reported under retained earnings.

The IAS 19 reserve comprises the actuarial gains and losses on the long-term employee benefit provisions (pensions and termination benefits), net of deferred tax.

The available-for-sale reserve contains the measurement gains and losses (net of deferred tax) on financial assets classified as available for sale.

The financial instruments attributable to the cash flow hedge category (net of deferred tax) are reported under the cash flow hedge reserve.

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

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

A summary of equity items is shown below. Additional information is presented in the consolidated statement of changes in equity on page 39.

EUR '000	31 Dec. 2015	31 Dec. 2014
Share capital	51,981	51,981
Capital reserves	191,824	191,824
Of which appropriated reserve	*94,624*	*94,624*
unappropriated reserve	*97,200*	*97,200*
Revaluation surplus	35,853	31,495
Retained earnings	293,197	287,055
Parent shareholders' equity	**572,855**	**562,355**
Non-controlling interests	8,624	8,371
Total	**581,479**	**570,726**

6.30 CONSOLIDATED OWN FUNDS AND REGULATORY OWN FUNDS REQUIREMENTS

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

In order to increase the resilience of Austrian banks to specific systemic risks the Austrian Financial Market Authority has prescribed an additional equity buffer, in the form of a hard core capital ratio of 1-3%, for 12 Austrian banks. With effect from 1 January 2016 the HYPO NOE Group must factor a 1% systemic risk buffer into the hard core capital requirement.

As the core capital ratio as at the end of the reporting period was 13.4%, and no developments that would lead to a significant reduction are anticipated in 2016, this additional requirement is being complied with, along with all the other regulatory requirements.

The progressive introduction of the capital conservation buffer will begin in 2016. When complete (in 2019) this will represent an additional own funds requirement in the form of hard core capital of 2.5%.

The additional own funds requirement (likewise in the form of hard core capital) due to the countercyclical capital buffer will also be determined from 2016 onwards. The calculation basis is defined exposures to given countries (currently Hong Kong, Norway and Sweden). The Group will not face significant additional own funds requirements in 2016 as a result of this buffer.

Capital management

Determination of capital requirements and investment opportunities

Our objective is to manage the Company's capital in a responsible and value-led manner. The main method used is budget and scenario analysis. Taking the current capital situation as its starting point, this seeks to accommodate the following cases over a five-year, medium-term planning horizon:

- Base case and scenario projections modelling future, budgeted variants;
- Scenarios reflecting changes in the economic environment;
- Scenarios reflecting adverse impacts on capital resources and the countermeasures necessitated by them.

Presentation of outcomes as a decision-making aid for capital management policies

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

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

Implementation of capital management policies approved by the Management and Supervisory Boards

Depending on the policy adopted, implementation may be performed by the market units in cooperation with Risk Management, Controlling and Cost Controlling, or by Treasury.

Basel Committee on Banking Supervision (BCBS) Paper 277

The above objectives, methods and processes effectively conform to the four fundamental elements outlined 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 2015

RWA optimisation projects were implemented in 2015.

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

EUR '000	CRR/CRD IV 31 Dec. 2014	CRR/CRD IV 31 Dec. 2014
Share capital	136,546	136,546
Of which paid-up capital instruments	*51,981*	*51,981*
premiums	*84,566*	*84,566*
Reserves, differences and non-controlling interests	423,200	408,441
Of which retained earnings	*282,249*	*271,729*
other reserves	*104,744*	*104,744*
transitional adjustments for additional minority interests	*363*	*484*
accumulated comprehensive income	*35,845*	*31,485*
Prudential filter: adjustments based on the requirements for prudential measurement	-4,487	-5,057
Other adjustments to hard core capital	-24,180	-31,485
Intangible assets	-824	-742
Hard core capital	530,256	507,704
Additional core capital	-	-
Core capital (tier 1 capital)	**530,256**	**507,704**
Deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible core capital	**530,256**	**507,704**
Eligible subordinated debt issued by the Group's parent	51,758	81,742
Eligible subordinated debt issued by subsidiaries	15,662	25,312
Of which grandfathering	*2,366*	*7,690*
Supplementary capital (tier 2 capital)	**67,419**	**107,053**
Deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible supplementary capital (after deductions)	**67,419**	**107,053**
Total eligible capital	**597,675**	**614,757**
Capital requirement	**315,497**	**331,171**
Surplus capital	**282,178**	**283,586**
Coverage ratio	189.44%	185.63%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	13.45%	12.26%
Total capital ratio in accordance with Art. 92(2)(c) CRR	15.16%	14.85%

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

EUR '000	CRR/CRD IV 31 Dec. 2015	CRR/CRD IV 31 Dec. 2014
Risk-weighted assessment base for credit risk	3,485,514	3,701,558
Of which 8% minimum capital requirement	278,841	296,125
Capital requirement for open currency positions	-	-
Capital requirement for operational risk	23,262	22,986
Capital requirement for CVA	13,394	12,059
Total capital requirement	**315,497**	**331,171**

In 2015 the Group's risk weighted assets (RWAs) were EUR 3.5bn – down by 5.8% year on year. Action designed to run down the RWAs reduced the "exposures to institutions" and "other items" exposure classes by approximately EUR 154m and EUR 40m respectively. In the "exposures to corporates", "retail exposures", "exposures secured by mortgages on immovable property" and "exposures in default" exposure classes, which are interlinked by mortgage collaterals, RWAs held at the previous year's level despite an increase of about EUR 257m in receivables and one of over 40% in exposures in default.

This improvement reflected both the lasting success of the RWA optimisation project and the impact of our ongoing active portfolio management activities.

Due to the progressive increases in the capital requirements under Basel III and the possibility of revisions to the standardised approach for credit risk (BCBS 347), action was initiated to reduce our capital requirements, in line with the Basel III RWA optimisation project. The optimisation project launched in the first half of the reporting period is largely completed. Apart from bringing about a reduction in risk weighted assets it has established processes and policies designed to fully exploit the potential identified.

As at 31 December 2015 the HYPO NOE Group's Tier 1 capital ratio was 13.4% – an increase of 118 basis points on the 12.3% recorded a year earlier. Capital adequacy improved as a result of the run-down of exposures to non-core business and the continued optimisation of RWAs.

The equity ratio (Basel III, fully loaded, pro forma IFRS) was 15.2% as at 31 December 2015. This corresponded to an increase of 30 basis points in comparison to the 14.9% ratio as at year-end 2014.

In other words, the Group is again exceeding the regulatory Tier 1 and total capital ratios of 4.5% and 8.0% respectively in 2016.

7. SEGMENT INFORMATION

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

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

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

The information provided on individual segments is drawn from the IFRS financial statements of the companies attributed to those segments. The same accounting policies as those described in Note 2 Accounting policies are applied to the preparation of these statements. A geographical breakdown of segment information was not prepared, since the cost of preparation was not outweighed by the benefits, and the Group's main focus is on the domestic market.

The four reportable segments, which are based on the structure of the Group's business activities, and the reconciliation of consolidated profit are as follows:

Gruppe Bank

This segment aggregates the income and expense items related to relationships with large customers – chiefly state and local government clients (Public Finance, Real Estate and Treasury business). The segment primarily offers banking transactions, corporate and real estate finance and treasury services to this target group.

Landesbank

As in the previous reporting period, these subgroup statements are for two subsidiaries, and contain the retail and corporate customer operations, with the emphasis on housing finance as well as the funding for large non-profit housing association building projects provided by HYPO NOE Landesbank AG. The earnings contributions of HYPO NOE Versicherungsservice GmbH from its insurance brokerage business are also included in this segment. The products offered by this segment are aligned with the Bank's defined strategic areas in terms of the needs that it aims to meet, namely finance and housing, saving and investment, and accounts and cards.

Leasing

This segment groups together the subsidiaries that operate in the leasing business (see Note 3.8 Lease accounting). These are IFRS subgroup financial statements for 46 (2014: 46) consolidated subsidiaries. This segment focuses on leasing solutions for the public sector and public agencies. It provides the following products: complex lease agreements relating to real estate projects, real estate project management services and business management services.

Other

This segment provides information on a subgroup with 25 subsidiaries (2014: 26) which are neither leasing companies nor banks.

The reduction in the number of subsidiaries in the Other segment in 2015 was due to the merger of NÖ. HYPO LEASING DECUS Grundstückvermietungs Gesellschaft m.b.H. with HYPO NOE Immobilien Beteiligungsholding GmbH.

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

Consolidation

This segment is used to provide information on consolidation adjustments.

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

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

7.1 BUSINESS SEGMENT INFORMATION

7.1.1 Segment profit or loss before tax

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

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

Gruppe Bank

The Gruppe Bank segment recorded a year-on-year rise in net interest income, and lower expenses for credit risk provisions as a result of decreased risk costs as well as effective workout management. Profit for the year before tax was impacted by statutory contributions to the resolution fund, payable for the first time in 2015, as well as the higher financial stability contribution (bank tax) recognised under other administrative expenses, as well as additional impairment charges on Heta bonds amounting to EUR 20.1m, which are recognised under net gains or losses on available-for-sale financial assets. There were also measurement losses from the non-profit EWU subgroup, which is included in net gains or losses on investments accounted for using the equity method. As reported in the previous year, significant impairments of EUR 54.2m recognised in relation to Heta bonds in light of the debt repayment moratorium imposed by the FMA on 1 March 2015 resulted in a loss for the year in 2014.

Landesbank

In comparison with the previous year, the Landesbank segment reported increased income from its core business (net interest income, and net fee and commission income), as well as higher net gains on credit risk provisions as a result of effective workout management and lower risk costs. Profit for the year before tax was affected by higher other administrative expenses due to statutory contributions (to a resolution fund and a deposit insurance fund) payable for the first time in 2015, as well as the higher financial stability contribution (bank tax) and additional impairment charges on Heta bonds amounting to EUR 3.1m, which are recognised under net gains or losses on available-for-sale financial assets. As reported in the previous year, significant impairments of EUR 9.7m recognised in relation to Heta bonds in light of the debt repayment moratorium imposed by the FMA on 1 March 2015 resulted in a loss for the year in 2014.

Leasing

Leasing projects worth over EUR 206m were contractually agreed in the Leasing segment in 2015, of which approximately EUR 200m related to real estate leases or PPP projects and EUR 6m to equipment leasing.

The real estate leasing projects include Karl Landsteiner University of Health Sciences in Krems, and the expansion of Mistelbach and Mödling state hospitals. New PPP projects were again secured, in the shape of the BSZ Eisenstadt (in a joint venture with STRABAG) and Hietzing Kindergarten projects. Implementation of both began in 2015.

The following factors had a significant impact on the year-on-year change in performance:

- In volume terms, fewer real estate leasing projects were handed over for use in 2015. Due to the fact that interest margins achieved during the construction phase are only recognised after handover, in line with standard industry practice, earnings from this part of the business were lower.
- A provision of EUR 0.6m was recognised for risks in a development project.
- The 2014 results included a one-time effect from the reclassification of an operating lease as a finance lease in one subsidiary.

Other

The loss for the year before tax for the Other segment in 2015 represented an improvement of EUR 3,747thsd. Key contributing factors were:

- Net gains on other financial investments, specifically from Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H. and as a result of the disposal of investment property by HYPO NÖ Liegenschaft GmbH.
- In contrast to the previous year, in 2015 no impairment losses on land or buildings were recognised.

Consolidation

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

2014, EUR '000	Gruppe Bank	Landesbank	Leasing	Other	Consoli-dation	Total
Net interest income	86,932	39,421	6,404	-958	-1,890	129,909
Credit risk provisions	-8,576	1,882	-	-23	-	-6,717
Net interest income after risk provisions	**78,356**	**41,303**	**6,404**	**-981**	**-1,890**	**123,192**
Net fee and commission income	3,132	10,895	-31	-20	3	13,979
Net trading income	-1,859	44	-	-	-	-1,815
Net losses/gains on hedges	-2,499	129	-	-	-	-2,369
Net gains or losses on financial assets measured using the fair value option	44	-	-	-	-	44
Net losses/gains on available-for-sale financial assets	-55,535	-9,483	6	60	-6	-64,958
Net gains or losses on other financial investments	-7	-	-294	179	-1,808	-1,930
Net other operating income	13,476	2,459	4,495	15,789	-12,560	23,659
Operating income after credit risk provisions	**35,108**	**45,349**	**10,580**	**15,027**	**-16,261**	**89,802**
Staff costs	-32,076	-25,156	-2,719	-10,394	-	-70,345
Other administrative expenses	-34,684	-21,206	-1,849	-5,477	14,371	-48,846
Depreciation and amortisation (excl. investment properties)	-1,950	-1,951	-148	-3,852	-	-7,901
Operating expense	**-68,710**	**-48,314**	**-4,716**	**-19,724**	**14,371**	**-127,092**
Net gains or losses on investments accounted for using the equity method	-2,311	-230	-643	663	-	-2,521
Loss/profit for the year before tax	**-35,913**	**-3,194**	**5,221**	**-4,034**	**-1,890**	**-39,811**
Income tax expense						8,822
Loss for the year						**-30,989**
Non-controlling interests						-350
Loss attributable to owners of the parent						**-31,338**

7.1.2 Segment assets and liabilities

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

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

7.2 GEOGRAPHICAL INFORMATION

The table below shows the main balance sheet items broken down by domestic and foreign business.

	31 Dec. 2015		31 Dec. 2014	
EUR '000	Domestic	Foreign	Domestic	Foreign
Loans and advances to banks	115,777	806,314	244,571	699,475
Loans and advances to customers	10,153,127	1,404,160	9,910,611	1,283,455
Available-for-sale financial assets	695,880	1,408,457	676,476	1,568,933
Financial assets designated as at fair value through profit or loss	4,118	-	4,244	-
Deposits from banks	791,261	1,426,234	884,506	1,743,224
Deposits from customers	2,547,348	713,508	1,746,874	558,182
Debts evidenced by certificates	2,806,715	5,359,122	2,994,451	5,558,860

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

8. SUPPLEMENTARY INFORMATION

8.1 FAIR VALUE DISCLOSURES (IFRS 7 AND IFRS 13)

The nature and extent of the risks associated with financial instruments, further sensitivity analyses and other disclosures also form part of Note 8.10 Risk management.

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

8.1.1 Fair value

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

	31 Dec. 2015		31 Dec. 2014	
EUR '000	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Loans and advances to banks	913,961	922,091	939,533	944,046
Loans and advances to customers1	11,697,120	11,461,974	11,254,946	11,090,701
Assets held for trading	586,811	586,811	652,995	652,995
Positive fair value of hedges	509,458	509,458	663,827	663,827
Available-for-sale financial assets	2,104,338	2,104,338	2,245,409	2,245,409
Financial assets designated as at fair value through profit or loss	4,118	4,118	4,244	4,244
Investments accounted for at equity	20,937	20,937	27,105	27,105
Investment property	76,524	68,704	71,584	67,752
Sundry other assets (2014: incl. non-current assets held for sale, IFRS 5)	50,388	50,010	41,478	41,515
Total assets	**15,963,655**	**15,728,441**	**15,901,121**	**15,737,594**
Equity and liabilities				
Liabilities to banks	2,199,359	2,217,495	2,628,621	2,627,730
Deposits from customers	3,280,790	3,260,856	2,309,895	2,305,056
Debts evidenced by certificates	8,161,236	8,165,837	8,757,310	8,553,311
Liabilities held for trading	516,969	516,969	591,140	591,140
Negative fair value of hedges	740,962	740,962	877,867	877,867
Other liabilities	106,298	106,297	104,338	104,376
Subordinated capital	185,088	205,449	209,938	206,059
Total equity and liabilities	**15,190,702**	**15,213,865**	**15,479,109**	**15,265,539**

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

8.1.2 Fair value hierarchy disclosures

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

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

Level 1: Quoted prices in active markets

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

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

Level 2: Valuation techniques based on observable inputs

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

Measurement is based on directly or indirectly observable inputs for similar assets: an income approach is applied to determine the discounted value of all future payments at a specified measurement date (present value method). The interest rate curves directly observable on money and capital markets, and upward valuation adjustments for similar assets directly observable in the capital market are employed as pricing parameters.

Level 3: Valuation techniques not based on observable inputs

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

Measurement is based on directly observable and on unobservable input factors. Assets and liabilities are allocated to Level 3 owing to the material significance of unobservable input factors for measurement. With the exception of certain short-term transactions and amounts repayable on demand, an income approach is applied to determine the discounted value of all future payments at a specified measurement date (net present value). The interest rate curves directly observable on money and capital markets, and upward valuation adjustments based on internal, unobservable pricing models are employed as pricing parameters. Where the risk associated with future payments is taken into account by means of appropriate discounts, risk-free discount rates commensurate with the currencies and maturities of the bonds are applied (i.e. without upward valuation adjustments). In the case of certain short-term transactions and amounts repayable on demand, such as overdraft facilities, deposits with banks, current and savings account deposits, and other current liabilities, the carrying amount represents a reasonable estimate of fair value.

The Level 3 methodology for participating interests (a list of AFS investments of over 20% can be found in Note 3.2.4 Interests in excess of 20% in associates classified as financial instruments in accordance with IAS 39) is described in the section on "Available-for-sale (AFS) financial assets" under Note 3.4 Financial assets.

Customer swaps are measured using an internal discounted cash flow (DCF) model, taking into account the current interest rate and basis spread curves. Suitable models are used in the measurement of embedded options. Credit risk and counterparty credit risk (debt value adjustment and credit value adjustment) are taken into consideration when calculating the fair value of all unsecured customer derivatives. However, since issuance by customers is at best minimal and it is thus not possible to determine credit spreads on the basis of quoted prices, the credit spreads for instruments with matching maturities are calculated using CDS index curves in line with the customer's credit rating and the sector in which the respective counterparty operates.

The value of investment properties recognised at cost was measured by professional assessors in 2013 (income approach). For 2015 these values were confirmed by HYPO NOE Valuation & Advisory GmbH. Level 3 classifications are based on unobservable market data such as the multiplier (reciprocal value of the risk-weighted interest rate) for similar assets.

Property classified as inventory, which is recognised at acquisition or construction cost, is reported under "Other assets": the applicable fair values are determined by a comparative value approach using unobservable market data from comparable market transactions such as gains on disposal and disclosed under Level 3. For the remaining other assets, the carrying amounts represent a reasonable estimate of fair value.

In the case of short-term loans and advances to customers, the carrying amounts represent a reasonable approximation to fair value, since the maturities are generally short.

In the case of the HYPO NOE Group's holdings in non-consolidated subsidiaries (over 50%), associates (20-50%) and other investments (participating interests of less than 20%), fair value is measured using the DCF method. Alternatively, the dividend discount model or the market value method may be applied.

		Fair value measurement		
31 Dec. 2015, EUR '000	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Loans and advances to banks	913,961	-	909,055	4,906
Loans and advances to customers	11,697,120	-	45,430	11,651,690
Assets held for trading	586,811	11,293	50,132	525,386
Positive fair value of hedges	509,458	-	509,458	-
Available-for-sale financial assets	2,104,338	1,740,606	88,422	275,310
Financial assets designated as at fair value through profit or loss	4,118	4,118	-	-
Investments accounted for at equity	20,937	-	-	20,937
Investment property	76,524	-	-	76,524
Sundry other assets (2014: incl. non-current assets held for sale, IFRS 5)	50,388	-	-	50,388
Total assets	**15,963,655**	**1,756,017**	**1,602,497**	**12,605,141**
Equity and liabilities				
Liabilities to banks	2,199,359	-	2,039,527	159,832
Deposits from customers	3,280,790	-	-	3,280,790
Debts evidenced by certificates	8,161,236	3,892,250	4,255,060	13,926
Liabilities held for trading	516,969	-	516,969	-
Negative fair value of hedges	740,962	-	740,962	-
Other liabilities	106,298	-	-	106,298
Subordinated capital	185,088	-	183,634	1,454
Total equity and liabilities	**15,190,702**	**3,892,250**	**7,736,152**	**3,562,300**

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

31 Dec. 2015, EUR '000	From Level 2		From Level 3	
	To Level 1	To Level 3	To Level 1	To Level 2
Assets				
Available-for-sale financial assets	8,279	41,991	-	-
Total assets	**8,279**	**41,991**	**-**	**-**
Equity and liabilities				
Liabilities held for trading	-	-	-	-32,100
Total liabilities	**-**	**-**	**-**	**-32,100**

The transfer of assets measured at fair value at the end of the reporting period concerns available-for-sale securities transferred from Level 2 to Level 3 as a result of the disappearance of external observable parameters. Reclassification from Level 2 to Level 1 is based on increased market activity. Reclassification of liabilities held for trading (derivatives) from Level 3 to Level 2 is based on a move to models using observable market parameters.

31 Dec. 2014, EUR '000	Total fair value	Fair value measurement		
		Level 1	Level 2	Level 3
Assets				
Loans and advances to banks	939,533	-	935,300	4,233
Loans and advances to customers	11,254,946	-	46,514	11,208,432
Assets held for trading	652,995	-	45,123	607,872
Positive fair value of hedges	663,827	-	663,827	-
Available-for-sale financial assets	2,245,409	1,785,061	197,643	262,706
Financial assets designated as at fair value through profit or loss	4,244	4,244	-	-
Investments accounted for at equity	27,105	-	-	27,105
Investment property	71,584	-	-	71,584
Sundry other assets	41,478	-	-	41,478
Total assets	**15,901,121**	**1,789,305**	**1,888,407**	**12,223,410**
Equity and liabilities				
Liabilities to banks	2,628,621	-	2,507,030	121,591
Deposits from customers	2,309,895	-	-	2,309,895
Debts evidenced by certificates	8,757,310	3,807,924	4,949,128	258
Liabilities held for trading	591,140	-	559,040	32,100
Negative fair value of hedges	877,867	-	877,867	-
Other liabilities	104,338	-	104	104,233
Subordinated capital	209,938	85,205	123,280	1,453
Total equity and liabilities	**15,479,109**	**3,893,129**	**9,016,449**	**2,569,530**

8.1.3 Fair value hierarchy: Level 3 disclosures

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

Income and expenses for Level 3 assets: on assets held for trading there were losses of EUR 81,451thsd (2014: gains of EUR 181,103thsd) and on liabilities held for trading there were neither gains nor losses (2014: losses of EUR 40,195thsd). These are reported under Note 5.5 Net trading income.

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

8.1.4 Level 3 sensitivity analysis

The following disclosures are intended to show the potential consequences of the relative uncertainty inherent in determining the fair value of financial instruments for which measurement is based on unobservable parameters. The sensitivity analysis for derivatives takes into account credit spreads in the determination of the credit value adjustment (CVA) or debit valuation adjustment (DVA), and for securities, changes in upward valuation adjustments based on the risk-free yield curve and discounts on future payments. Appropriate values which reflect the prevailing market conditions and the uncertainty involved in calculating measurement inputs as at the end of the reporting period were selected when determining the unobservable parameters. On the basis of this framework a bandwidth of 10 basis points (bp) for credit spreads was used in the analysis presented in the table below,

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

31 Dec. 2015, EUR '000	Positive changes in fair value	Negative changes in fair value
Derivatives	-	-2,048
Securities	-	-1,686
Total	**-**	**-3,735**

8.1.5 Offsetting of financial assets and liabilities

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

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

31 Dec. 2015, EUR '000	Financial assets/ liabilities (gross)	Reported amounts offset (gross) (-)	Financial assets reported (net)	Effect of master netting agreements (-) not offset	Collateral in the form of financial instruments (-) not offset	Net amount
	(a)	(b)	(c)=(a)+(b)	(d)(i), (d)(ii)	(d)(ii)	(e)=(c)+(d)
Assets						
Loans and advances to customers	11,557,287	-	11,557,287	-	-	11,557,287
Assets held for trading	586,811	-	586,811	-29,958	-159	556,694
Positive fair value of hedges	509,458	-	509,458	-328,564	-59,509	121,385
Total assets	**12,653,556**	**-**	**12,653,556**	**-358,522**	**-59,668**	**12,235,366**
Liabilities						
Deposits from customers	3,260,856	-	3,260,856	-	-	3,260,856
Liabilities held for trading	516,969	-	516,969	-29,958	-	487,011
Negative fair value of hedges	740,962	-	740,962	-328,564	-	412,398
Total liabilities	**4,518,787**	**-**	**4,518,787**	**-358,522**	**-**	**4,160,265**

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

8.2 DERIVATIVES

All of the derivative financial instruments are hedges of assets and liabilities, or customer derivatives.

Most hedging activities were related to interest rate and exchange risk in respect of own issues and securities, and promissory notes including certificates of deposit. Interest rate and cross currency swaps were used to hedge these instruments from the time of designation through to the maturity of underlying transaction in question. Customer derivatives and related hedges are classified as held for trading.

Currency swaps and forwards are used as economic hedges for currency positions.

Accepted, industry-standard valuation models are employed. The present value of linear derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards and forward rate agreements) is calculated by discounting the replicating cash flows (DCF). OTC currency and interest rate options are measured using common option pricing models such as the Black Scholes or Hull White models.

	31 Dec. 2015			31 Dec. 2014		
		Fair value			Fair value	
EUR '000	Nominal value	Positive	Negative	Nominal value	Positive	Negative
Derivatives held for trading						
Interest rate	6,390,161	553,839	497,468	6,211,514	648,003	581,775
Foreign currencies and gold	721,396	20,880	19,501	138,067	4,992	9,365
Total	**7,111,557**	**574,719**	**516,969**	**6,349,581**	**652,995**	**591,140**
Fair value hedges						
Interest rate	11,822,606	499,554	725,296	11,829,382	659,179	864,577
Foreign currencies and gold	283,956	9,904	15,666	264,686	4,647	13,290
Total	**12,106,562**	**509,458**	**740,962**	**12,094,068**	**663,826**	**877,867**

8.3 LEASING DISCLOSURES

Finance lease disclosures (with the Group as lessor)

EUR '000	31 Dec. 2015	31 Dec. 2014
Gross investment	**1,858,546**	**1,849,446**
Minimum lease payments	1,726,376	1,710,926
Up to 1 year	132,195	125,753
From 1 to 5 years	430,527	434,952
Over 5 years	1,163,654	1,150,221
Unguaranteed residual value	132,170	138,520
Unearned finance income	**-231,747**	**-258,422**
Up to 1 year	-21,815	-24,143
From 1 to 5 years	-75,499	-82,182
Over 5 years	-134,433	-152,097
Net investment	**1,626,799**	**1,591,024**

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

The Lower Austrian state government and Lower Austrian local authorities account for approximately 98% (2014: approx. 98%) of the finance leases written.

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

About 94% (2014: 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.

No impairments were recognised for outstanding minimum lease payments.

EUR '000	31 Dec. 2015	31 Dec. 2014
Minimum lease payments	1,726,376	1,710,926
Unearned finance income	-231,747	-258,422
Net present value of minimum lease payments	**1,494,629**	**1,452,504**
Unguaranteed residual value	132,170	138,520
Net investment	**1,626,799**	**1,591,024**

Operating lease disclosures (with the Group as lessor)

EUR '000	31 Dec. 2015	31 Dec. 2014
Future minimum lease payments on non-cancellable leases	**2,628**	**3,044**
Up to 1 year	312	323
From 1 to 5 years	2,316	1,293
Over 5 years	-	1,428

8.4 ANALYSIS OF ASSETS AND LIABILITIES BY IAS 39 MEASUREMENT CATEGORIES

31 Dec. 2015, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Available for sale (AFS)	Fair value hedges	Financial assets/liabilities at cost (amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	68,986	68,986
Loans and advances to banks	922,091	-	-	-	-	-	-	922,091
Loans and advances to customers	11,557,287	-	-	-	-	-	-	11,557,287
Risk provisions	-100,423	-	-	-	-	-	-	-100,423
Assets held for trading	-	-	586,811	-	-	-	-	586,811
Positive fair value of hedges	-	-	-	-	-	509,458	-	509,458
Available-for-sale financial assets	-	-	-	-	2,104,338	-	-	2,104,338
Financial assets designated as at fair value through profit or loss	-	-	-	4,118	-	-	-	4,118
Investments accounted for at equity	-	-	-	-	-	-	20,937	20,937
Investment property	-	-	-	-	-	-	68,704	68,704
Other financial assets[1]	48,566	-	-	-	-	-	-	48,566
Total financial assets	**12,427,521**	**-**	**586,811**	**4,118**	**2,104,338**	**509,458**	**158,627**	**15,790,873**
Liabilities to banks	-	2,217,495	-	-	-	-	-	2,217,495
Deposits from customers	-	3,260,856	-	-	-	-	-	3,260,856
Debts evidenced by certificates	-	8,165,837	-	-	-	-	-	8,165,837
Liabilities held for trading	-	-	516,969	-	-	-	-	516,969
Negative fair value of hedges	-	-	-	-	-	740,962	-	740,962
Subordinated capital	-	205,449	-	-	-	-	-	205,449
Other financial liabilities[1]	-	79,836	-	-	-	-	-	79,836
Total financial liabilities	**-**	**13,929,473**	**516,969**	**-**	**-**	**740,962**	**-**	**15,187,404**

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

31 Dec. 2014, EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Held for trading (HFT)	Designated as at fair value through profit or loss (FVTPL)	Available for sale (AFS)	Fair value hedges	Financial assets/liabilities at cost (amortised cost)	Total
Cash and balances at central banks	-	-	-	-	-	-	99,025	99,025
Loans and advances to banks	944,046	-	-	-	-	-	-	944,046
Loans and advances to customers	11,194,066	-	-	-	-	-	-	11,194,066
Risk provisions	-108,562	-	-	-	-	-	-	-108,562
Assets held for trading	-	-	652,995	-	-	-	-	652,995
Positive fair value of hedges	-	-	-	-	-	663,827	-	663,827
Available-for-sale financial assets	-	-	-	-	2,245,409	-	-	2,245,409
Financial assets designated as at fair value through profit or loss	-	-	-	4,244	-	-	-	4,244
Investments accounted for at equity	-	-	-	-	-	-	27,105	27,105
Investment property	-	-	-	-	-	-	67,752	67,752
Other financial assets[1]	36,985	-	-	-	-	-	-	36,985
Total financial assets	**12,066,535**	**-**	**652,995**	**4,244**	**2,245,409**	**663,827**	**193,882**	**15,826,892**
Liabilities to banks	-	2,627,730	-	-	-	-	-	2,627,730
Deposits from customers	-	2,305,056	-	-	-	-	-	2,305,056
Debts evidenced by certificates	-	8,553,311	-	-	-	-	-	8,553,311
Liabilities held for trading	-	-	591,140	-	-	-	-	591,140
Negative fair value of hedges	-	-	-	-	-	877,867	-	877,867
Subordinated capital	-	206,059	-	-	-	-	-	206,059
Other financial liabilities[1]	-	90,652	-	-	-	-	-	90,652
Total financial liabilities	**-**	**13,782,808**	**591,140**	**-**	**-**	**877,867**	**-**	**15,251,815**

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

8.5 DISCLOSURES ON RELATED-PARTY RELATIONSHIPS

31 Dec. 2015, EUR '000	Investors with influence over the Group's parent	Non-consolidated subsidiaries (greater than 50%)	Investments accounted for at equity	Joint ventures in which the Company is a joint venturer	Associates and other related parties	Key management*
Loans and advances to customers	2,947,941	112,329	212,958	11,207	12,706	4,092
Of which lease receivables	*1,578,162*	-	-	-	-	-
Equity instruments (shareholdings, etc.)	-	931	18,641	2,422	487	-
Positive fair value of derivatives	90,646	-	-	-	-	-
Other assets	-	-	238	-	-	-
Liabilities to banks	-	-	-	1,228	-	-
Deposits from customers	32,657	743	17,229	1,370	6,146	4,932
Other liabilities	-	-	-	301	-	-
Guarantees provided by the Group	-	-	8,151	-	-	7
Other obligations incl. unused credit lines	545,585	6,562	5,696	45,549	10,433	621
Guarantees received by the Group	2,825,002	-	-	-	-	-
Provisions for doubtful debts	-	-	24	5	-	8

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

*Includes loans, advances and guarantees as at 31 December 2015 of EUR 2,567thsd extended to the Management Board (31 Dec 2014: EUR 2,059thsd) and of EUR 71thsd extended to the Supervisory Board (31 Dec 2014: EUR 117thsd), all concluded on arm's length terms.

During the period under review, EUR 1thsd (2014: EUR 5thsd) was recognised as expenses in respect of bad or doubtful debts due from related parties.

The transfer prices between the HYPO NOE Group and related parties were arm's length prices. The non-consolidated subsidiaries and investments accounted for using the equity method are set out in Note 3.2 Investments.

The Lower Austrian state government holds an interest of 70.49% in HYPO NOE Gruppe Bank AG via NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% via NÖ BET GmbH. On account of its holdings, the Lower Austrian state government exercises influence over the Group's parent, as shown in the table above.

The state government guarantees of loans and advances extended to third parties by HYPO NOE Gruppe Bank AG (see table above) were all concluded on arm's length terms. Use is made of the exemption from disclosure requirements under paragraphs 25 and 18 IAS 24.

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

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

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

A member of key management is a member of the management board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

The Chairman of the Management Board, Peter Harold, is deputy chairman of the supervisory board of NOE Immobilien Development AG, St. Pölten.

A member of the Management Board, Nikolai de Arnoldi, is chairman of the supervisory board of NOE Immobilien Development AG , St. Pölten.

Relationships with entities accounted for using the equity method

The Chairman of the Management Board, Peter Harold, is a member of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

A member of the Management Board, Nikolai de Arnoldi, is chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

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

Members of the Group's key management are members of the management board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

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

Relationships with parent companies

The deputy chairman of the Supervisory Board chairs, and another member of the Supervisory Board is deputy chairman of the supervisory board of NÖ Landes-Beteiligungsholding GmbH, St. Pölten.

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

The chairman of the Supervisory Board is a member of the management board of Flughafen Wien AG (the operator of Vienna International Airport).

Key management in the HYPO NOE Group consists of "identified staff". In 2014 the Group also disclosed information on "identified staff with less material impact". Following an assessment of the definition of key management personnel under IAS 24, this group is no longer considered to fall within the definition of key management. The figures for the comparative period have not been adjusted.

8.6 SUPPLEMENTARY DISCLOSURES

Joint and several liability for Pfandbriefstelle issues

Under section 2(1) Pfandbriefstelle Act (PfBrStG), as member banks of the Pfandbriefstelle der österreichischen Landes-Hypothekenbanken, HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG are jointly and severally liable, together with the other member institutions, for all the liabilities of the Pfandbriefstelle. This liability is the same for all the member banks listed in section 1(2) of the Pfandbriefstelle's articles of association and their universal successors. Under section 2(2) Pfandbriefstelle Act, the members' guarantors (the respective state governments) are likewise jointly and severally liable for all liabilities incurred up to 2 April 2003, and for all liabilities incurred between 2 April 2003 and 1 April 2007 where the maturities do not extend beyond 30 September 2017. According to Pfandbriefstelle's statutory audit report, the guarantors' liabilities as at 31 December 2015 were some EUR 3,343,912thsd (2014: EUR 5,538,652thsd). This is approximately corresponds to the total liabilities of Pfandbriefstelle as at 31 December 2015. Taking into account the funds raised by Pfandbriefstelle and lent on to HYPO NOE Gruppe Bank AG, which totalled EUR 432,031thsd at 31 December 2015 (31 Dec 2014: EUR 558,499thsd), the amount to be disclosed under section 237(8a) Austrian Business Code is EUR 2,911,881thsd (31 Dec 2014: EUR 4,980,153thsd). It should be noted in this context that as of 15 January 2015 the operating activities of Pfandbriefstelle were taken over by Pfandbriefbank (Österreich) AG with retroactive effect from 31 December 2013. Pfandbriefstelle is currently the sole shareholder in Pfandbriefbank (Österreich) AG.

On 1 March 2015 the FMA issued a notice imposing a moratorium on debt repayments by HETA until 31 May 2016. This led to increased risk. As part of an agreement with the member institutions and the State of Carinthia, the Management Board of HYPO NOE Gruppe Bank AG has undertaken to provide financing for one-eighth of the EUR 1.2bn of debt instruments issued on behalf of HETA, i.e. about EUR 155m. This amount includes the share of the State of Lower Austria and that of HYPO NOE Gruppe Bank AG, of which EUR 84m fell due in 2015. The State of Lower Austria, in a resolution of the Lower Austrian parliament on 19 March 2015 and at a meeting of the Lower Austrian government on 24 March 2015, agreed to guarantee the obligations of HYPO NOE Gruppe Bank AG, in fulfilment of its joint and several liability pursuant to the Pfandbriefstelle Act. The guarantee has been recognised by the Group as a financial guarantee, with the result that recognition of a risk provision was not necessary. In return, HYPO NOE Gruppe Bank AG undertook to pay an appropriate consideration (less the set-off of any refinancing costs incurred) as well as full compensation for drawdowns in the form of a debtor warranty contingent on the Bank's future profits. In 2015 cost of the debtor warranty of EUR 10.9m were recognised in expense. In connection with the agreement, there is a risk that other member institutions or guarantors may not fulfil their obligations under the Pfandbriefstelle Act. In such an event, new agreements might have to be concluded.

Contingent liability of the State of Lower Austria

Under section 1356 Austrian Civil Code, the State of Lower Austria is liable, as the deficiency guarantor, for all the liabilities incurred by HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG up to and including 2 April 2003. Liabilities incurred between 3 April 2003 and 1 April 2007 are covered by the state government guarantee provided that their maturities do not extend beyond 30 September 2017. The guarantee does not cover liabilities incurred after 1 April 2007 or falling due after 30 September 2017. As at 31 December 2015 state government guarantees of issues, deposits and other liabilities such as subordinated and supplementary capital were

- EUR 3,752,783thsd (2014: EUR 4,596,944thsd) for HYPO NOE Gruppe Bank AG and
- EUR 202,481thsd (2014: EUR 257,367thsd) for HYPO NOE Landesbank AG
- making a total of EUR 3,955,264thsd (2014: EUR 4,854,311thsd) for both banks together.

EUR '000	31 Dec. 2015	31 Dec. 2014
Securities admitted to trading (assets)		
no unlisted securities were held	Listed	Listed
Bonds and other fixed-income securities	1,024,621	1,421,504
Shares and other variable-income securities	4,074	4,082

EUR '000	31 Dec. 2015	31 Dec. 2014
Negotiable securities assigned to fixed assets		
Bonds and other fixed-income securities	1,008,420	1,179,153
Shares and other variable-income securities	4,074	4,082

EUR '000	31 Dec. 2015	31 Dec. 2014
Assets pledged as collateral		
Cover pool for covered bonds and public sector covered bonds (debts evidenced by certificates)	5,645,875	5,587,460
Of which covering loans	*5,463,684*	*5,402,955*
Of which securities	*180,691*	*174,506*
Of which cash	*1,500*	*10,000*
Marketable collateral (securities) delivered to the collateral custody account with the OeNB (for deposits from banks)*	416,585	174,023
Non-marketable collateral (loans) transferred to the OeNB (for deposits from banks)*	913,133	761,457
**Of which OeNB tenders*	500,027	500,001
Securities pledged to the EIB (for deposits from banks)	138,439	147,691
Collateral delivered (cash) (for derivatives)	711,640	608,080

	31 Dec. 2015	31 Dec. 2014
After-tax return on assets (ratio of profit for the year to total assets)	0.04%	-0.19%

Supplementary disclosures pursuant to the Austrian Business Code

The HYPO NOE Group's rental and lease commitments amount to EUR 1,719thsd in 2016 (2015: EUR 1,732thsd) and EUR 8,225thsd in total for the 2016-2020 financial years.

Supplementary disclosures pursuant to the Austrian Banking Act

Foreign currency assets amounting to EUR 1,568,626thsd (2014: EUR 1,629,736thsd) and foreign currency liabilities amounting to EUR 1,604,598thsd (2014: EUR 1,768,032thsd) are included in the total assets of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG pursuant to the Austrian Banking Act (BWG).

In 2015 expenses arising from subordinated debt totalled EUR 1,932thsd (2014: 3,176thsd).

Receivables falling due within one year from bonds and other fixed-income securities amounted to EUR 70,809thsd (2014: EUR 90,993thsd), and those from bonds issued to EUR 905,552thsd (2014: EUR 531,732thsd).

Securities intended to be a permanent part of business operations form part of financial assets.

Analysis of assets by maturities

EUR '000	31 Dec. 2015	31 Dec. 2014
Loans and advances to banks		
Repayable on demand	789,885	74,750
Up to 3 months	56	737,080
3 months to 1 year	168	119
From 1 to 5 years	81,917	81,922
Over 5 years	50,065	50,175
Total	**922,091**	**944,046**
Loans and advances to customers		
Repayable on demand	168,601	127,235
Up to 3 months	355,023	308,207
3 months to 1 year	1,011,771	851,550
From 1 to 5 years	3,326,083	2,908,035
Over 5 years	6,695,809	6,999,039
Total	**11,557,287**	**11,194,066**
Assets held for trading		
Repayable on demand	-	-
Up to 3 months	2,771	214
3 months to 1 year	737	110
From 1 to 5 years	25,738	27,789
Over 5 years	557,565	624,882
Total	**586,811**	**652,995**
Financial assets designated as at fair value through profit or loss		
Repayable on demand or no fixed term	-	-
Up to 3 months	-	-
3 months to 1 year	4,118	-
From 1 to 5 years	-	4,244
Over 5 years	-	-
Total	**4,118**	**4,244**
Available-for-sale financial assets		
Repayable on demand or no fixed term	7,724	60,243
Up to 3 months	11,418	46,469
3 months to 1 year	153,211	151,750
From 1 to 5 years	940,927	1,014,004
Over 5 years	991,058	972,943
Total	**2,104,338**	**2,245,409**

EUR '000	31 Dec. 2015	31 Dec. 2014
Positive fair value of derivatives (hedge accounting)		
Repayable on demand or no fixed term	-	-
Up to 3 months	2,301	3
3 months to 1 year	12,800	4,982
From 1 to 5 years	191,665	250,054
Over 5 years	302,692	408,788
Total	**509,458**	**663,827**
Other assets		
Repayable on demand or no fixed term	23,015	19,562
Up to 3 months	18,149	10,603
3 months to 1 year	7,489	857
From 1 to 5 years	762	6,442
Over 5 years	595	1,068
Total	**50,010**	**38,532**

Analysis of liabilities by maturities

EUR '000	31 Dec. 2015	31 Dec. 2014
Deposits from banks		
Repayable on demand or no fixed term	127,446	33,481
Up to 3 months	756,578	1,066,570
3 months to 1 year	176,035	208,980
From 1 to 5 years	610,893	753,322
Over 5 years	546,543	565,377
Total	**2,217,495**	**2,627,730**
Deposits from customers		
Repayable on demand or no fixed term	926,460	815,849
Up to 3 months	630,125	247,987
3 months to 1 year	981,164	595,198
From 1 to 5 years	630,993	582,622
Over 5 years	92,114	63,400
Total	**3,260,856**	**2,305,056**
Debts evidenced by certificates		
Repayable on demand or no fixed term	499	586
Up to 3 months	364,071	235,807
3 months to 1 year	329,036	265,549
From 1 to 5 years	4,288,588	4,310,064
Over 5 years	3,183,643	3,741,305
Total	**8,165,837**	**8,553,311**

EUR '000	31 Dec. 2015	31 Dec. 2014
Liabilities held for trading		
Repayable on demand	-	-
Up to 3 months	231	1,311
3 months to 1 year	2,974	166
From 1 to 5 years	18,074	21,481
Over 5 years	495,690	568,182
Total	**516,969**	**591,140**
Negative fair value of derivatives (hedge accounting)		
Repayable on demand	-	-
Up to 3 months	147	68
3 months to 1 year	3,949	6,465
From 1 to 5 years	61,825	69,370
Over 5 years	675,041	801,964
Total	**740,962**	**877,867**
Other liabilities		
Repayable on demand or no fixed term	18,357	14,749
Up to 3 months	18,106	17,151
3 months to 1 year	32,892	29,401
From 1 to 5 years	28,532	36,004
Over 5 years	8,410	7,071
Total	**106,297**	**104,376**
Subordinated capital		
3 months to 1 year	-	-
From 1 to 5 years	205,449	206,059
Over 5 years	-	-
Total	**205,449**	**206,059**

8.7 TRUST TRANSACTIONS

In accordance with IFRS, trust transactions entered into by the HYPO NOE Group in its own name but for the account of third parties are not shown in the statement of financial position. Commissions are reported in the statement of comprehensive income (Note 5.4 Net fee and commission income, under other fee and commission income and other fee and commission expense).

There were no trust transactions not reported in the financial statements as at 31 December 2015 or 31 December 2014.

8.8 CONTINGENT LIABILITIES AND CREDIT RISK

8.8.1 Contingent liabilities

EUR '000	31 Dec. 2015	31 Dec. 2014
Acceptances and endorsements	109	109
Liabilities arising from guarantees and provision of collateral	119,657	141,731

8.8.2 Credit risk

EUR '000	31 Dec. 2015	31 Dec. 2014
Unutilised facilities	1,355,257	1,223,716

Unutilised facilities include both unutilised loan facilities and revolving borrowing facilities (e.g. overdraft facilities), where there is a strong likelihood that the unutilised credit facilities will be used within the contractually agreed period. Credit lines can be used at any time, meaning that a higher degree of uncertainty is associated with utilisation and the maturity date. The amounts disclosed for unutilised facilities also include amounts forming part of disclosures in Note 8.5 Disclosures on related-party relationships.

Unutilised facilities are largely in the public sector. They also include the unpaid amount of the one-eighth obligation with respect to the Heta securities.

8.9 MORTGAGE BANKING IN ACCORDANCE WITH THE PFANDBRIEFGESETZ (COVERED BOND ACT)

		Coverage of:		
31 Dec. 2015, EUR '000	**Coverage required for debts evidenced by certificates**	**loans**	**financial instruments**	**surplus coverage**
Covered bonds	927,136	1,489,129	19,710	581,703
Public sector covered bonds	3,164,233	3,974,554	162,481	972,802
Total	**4,091,369**	**5,463,683**	**182,191**	**1,554,505**

		Coverage of:		
31 Dec. 2014, EUR '000	**Coverage required for debts evidenced by certificates**	**loans**	**financial instruments**	**surplus coverage**
Covered bonds	641,896	1,343,311	22,880	724,295
Public sector covered bonds	2,860,653	4,059,644	161,626	1,360,617
Total	**3,502,549**	**5,402,955**	**184,506**	**2,084,912**

8.10 RISK MANAGEMENT

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

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

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

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

Risk management system

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

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

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

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

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

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. In spite of the risk management methods and control processes in use, the Group may be exposed to unknown and unexpected risks. The risk management techniques and strategies cannot be expected to be wholly effective in every market environment and against all types of risks.

Aggregate risk management and risk-bearing capacity (ICAAP)

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

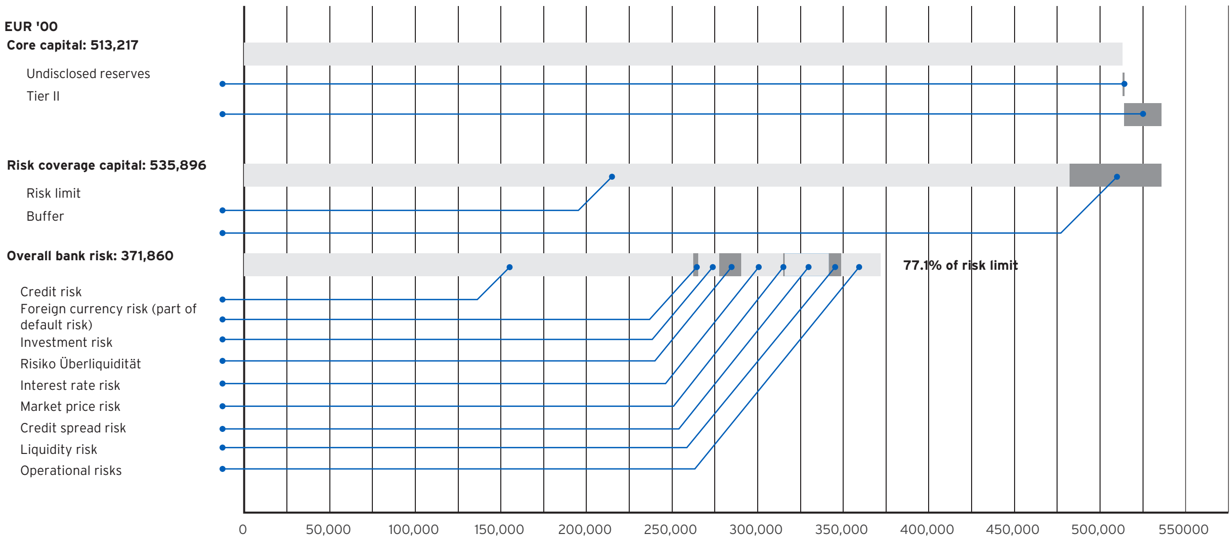
The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. The minimum capital requirement is calculated using the standardised approach (Pillar 1, Basel III regulations). All material risks (interest rate risk on the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

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

1. Economic capital management control provides creditor protection against the dangers of customer liquidation. Risks are evaluated at a high confidence level (99.9% with a holding period of one year) and compared with the risk coverage capital available in the event of liquidation.
2. Going concern management control is designed to ensure that the Bank survives as a going concern. In this case, risks are evaluated at a lower confidence level (95% with a holding period of one year) and compared with the realisable coverage capital available without endangering survival.

The HYPO NOE Group's risks and risk limits (including buffers) for the purposes of economic capital management as at 31 December 2015 are shown below.

As at 31 December 2015 the Group utilised 77.1% of the aggregate risk limit (including an adequate buffer), which was slightly lower than at 31 December 2014 (77.9%).



Capital management of internal risk coverage capital

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

The principal components of the HYPO NOE Group's potential economic risk coverage capital are as follows:

- Tier 1 capital
- Hidden economic reserves and potential liabilities from securities and investments.

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

The following components are currently not included in the Group's economic coverage capital:

- Subordinated and supplementary capital (except for certain defined stress situations)
- Interim profits and losses for the current financial year.

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

Restructuring plan

Under the Federal Act on the Recovery and Resolution of Banks, which came into force on 1 January 2015, the HYPO NOE Group is required to submit a restructuring plan to the Austrian regulator; the first such plan was due for submission by the end of the third quarter of 2015. When incorporated into day-to-day operations, the details of the restructuring plan will form an integral part of the Group's risk and capital management framework. In future, the development of restructuring measures will be a regular part of the work of the Risk Management Committee.

The restructuring plan sets out the measures designed to ensure financial strength and the ability to operate in severe economic stress situations. It sets out the potential options for replenishing capital and liquidity. These options should make it possible to deal with a variety of stress scenarios, including market-wide stress, idiosyncratic stress and combined scenarios.

The first stage is to select from among a wide range of potential restructuring measures those that represent possible and permitted options for the HYPO NOE Group. The second stage involves the detailed qualitative and quantitative analysis of the effects, and then for each restructuring measure an analysis and assessment of the feasibility of the implementation process, including the obstacles, the necessary accompanying communication and the chances of success.

Capital activities already used for risk management in normal business operations and generally already included in the regular assessment of restructuring measures are not separately evaluated in the restructuring plan. These mainly comprise appropriate adjustments of dividend policies and the creation of reserves.

In this process of selecting measures, the contributions of reductions in bonus payments and other cost-saving measures – such as reductions in sponsorship expenses – to effective capital management and the chosen restructuring measures are also identified. After all the potential means of increasing retained profits have been exhausted, another effective option is an increase in share capital by the owner. The issue of subordinated and supplementary capital as a restructuring measure was not pursued in this first stage, but a detailed analysis of this option will follow with the forthcoming inclusion of the total capital ratio in the set of restructuring measures.

Bank-wide stress testing

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

Basel III

The risk weighted assets (RWA) optimisation project begun in the first half of 2015 is largely completed. In addition to bringing about a reduction in risk weighted assets, it established processes and measures designed to maximise the long-term benefits of the potential identified.

While regular, ongoing reporting improvements to meet revised reporting standards have now become routine, preparations for implementing and analysing the effects of future measures (currently known as Basel IV) are already under way. The objective here is not merely to be regulatorily compliant, but also to evaluate the effects on all areas of the Bank, so as to be able to initiate any necessary corrective measures in areas such as planning and business strategy in good time.

Risk management systems

In 2016 the HYPO NOE Group will again be enhancing its IT infrastructure, as well as processes and methodologies, in order to be able to comply with future regulatory requirements (Basel IV, IFRS 9, MREL, leverage ratio). This will also ensure that risk control systems remain compatible with the authorised levels of risk tolerance and the Group's business objectives.

Credit risk

Credit risk is the danger of a deterioration in creditworthiness, and ultimately the risk of default by a counterparty or the guarantor. Credit risks are of various different types, depending on the products involved: loans involve classic credit risk, for derivatives there is counterparty risk, and for securities issuer risk. There is also investment risk, customer foreign exchange risk, endowment loan risk and country risk, for all of which the corresponding limits are monitored.

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

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

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

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

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

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

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

Credit risk exposures

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

EUR '000	31 Dec. 2015	31 Dec. 2015	Change
Cash and balances at central banks	68,986	99,025	-30,039
Loans and advances to banks	922,091	944,046	-21,955
Loans and advances to customers	11,557,287	11,194,066	363,221
Risk provisions	-100,423	-108,562	8,139
Assets held for trading	586,811	652,995	-66,184
Positive fair value of hedges (hedge accounting)	509,458	663,827	-154,369
Available-for-sale financial assets	2,104,338	2,245,409	-141,071
Financial assets designated as at fair value through profit or loss	4,118	4,244	-126
Investments accounted for using the equity method	20,937	27,105	-6,168
Investment property	68,411	67,752	659
Contingent liabilities			
Acceptances and endorsements	109	109	0
Liabilities arising from guarantees and provision of collateral	119,657	141,731	-22,074
Credit risk	1,355,257	1,223,716	131,541
Total	**17,217,037**	**17,155,463**	**61,574**

Credit risk analysis

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

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

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

In addition, the operational credit risk management units are responsible for monitoring early warning indicators (principally generated by Credit Services) in order to identify potential problem customers as early as possible, so as to be able to initiate countermeasures in good time. The appearance of certain early warning indicators means that the loan is designated a watch loan, with intensified customer service and monitoring. The market units and the operational credit risk units are jointly responsible.

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

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

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

- Substantial loan more than 90 days overdue (regulatory definition)
- Individual impairment allowances
- Credit rating related restructuring
- Insolvency, composition and bankruptcy
- Loan writedowns or write-offs.

Country analysis

In the light of the continuing European sovereign debt crisis, The Group is continuing to monitor developments and its exposures in Croatia, Cyprus, Greece, Hungary, Italy, Ireland and Slovenia very closely. Repayment of the exposure in Greece is proceeding in line with the loan agreement. The HYPO NOE Group has no direct exposures in Portugal, Ukraine or Russia.

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

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

Risk provisions

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

Forbearance

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

- Changes in terms and conditions of the loan, or refinancing
- Payment difficulties

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

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

For forbearance status to be cancelled, all of the following conditions must be satisfied:
- Analysis of the debtor's financial position supports the assessment that the debtor can meet his financial liabilities
- The loan is classified as performing
- The probation period of at least two years has been completed
- The debtor has materially fulfilled his payment obligations regularly over at least half of the probation period
- None of the debtor's exposures during and at the end of the probation period are overdue by more than 30 days.

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

The principal forbearance measures in 2015 consisted of reschedulings, term extensions and waivers of contractual rights.

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

These monitoring measures ensure that forborne exposures are classified as non-performing as soon as the desired object of forbearance (renewed compliance with terms and conditions) is not and cannot be expected to be achieved. If in the process of regular review an impairment in the meaning of IAS 39 is identified, then the exposure is classified as non-performing and an individual impairment allowance is recognised for the expected default.

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

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

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

Credit risk monitoring

For individual customers, risk monitoring is the responsibility of the operational credit risk management units concerned, which check credit ratings, monitor blacklists drawn up by Credit Services and process loan applications potentially entailing significant risks. In addition, relationship managers are required to prepare comprehensive reviews when necessary, and in any event at least once a year and irrespective of the amount of the exposures and the credit ratings. The reviews are submitted for the attention of the managers with the requisite decision-making authority. Customers giving cause for concern (where significant risk is involved) are monitored by the operational credit risk management units. Where there is a significant deterioration in the risk situation, the exposures are transferred to the specialists in the Workout Management Department, who are not involved in front office approval.

Credit facilities for own investments, money market deposits and derivatives are submitted to the Supervisory Board for authorisation twice a year. Compliance with the limits imposed is monitored on an ongoing basis, and reports are regularly submitted to the Supervisory Board. Such facilities are principally requested for sovereigns, and Austrian and international banks with good external ratings.

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

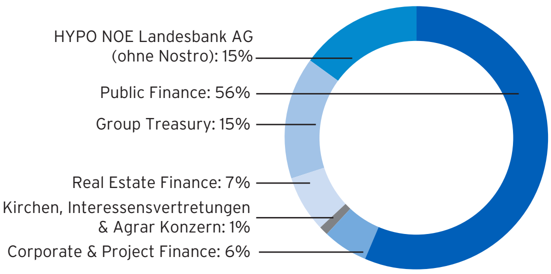
Risk concentration

Risk concentrations in the HYPO NOE Group are identified and monitored using country and industry limits, and for securities, derivatives and money market activities. There is also a limit for customers associated with the Group. For the HYPO NOE Group there is significant concentration in public sector financing in Austria. The main customer – the owner of the HYPO NOE Group – finances itself mainly in euro. With this exception, the Bank has no significant exposure to customer default risk. See also Note 6.4 Loans and advances to customers.

Credit risk management

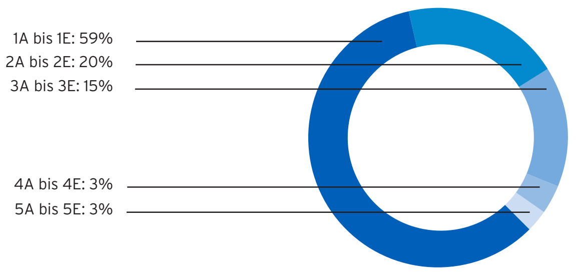
The credit risk management system is based on the following control units:

	Exposure (EUR '000)[1]	
Control unit	31 Dec. 2015	31 Dec. 2014
Public Finance	8,669,841	8,719,370
Corporate and Project Finance	886,216	859,321
Religious Communities, Interest Groups & Agriculture	143,339	101,434
Real Estate Finance	1,078,725	1,005,528
Group Treasury	2,292,930	3,000,992
HYPO NOE Landesbank (excl. nostro)	2,290,576	2,164,140
Total	**15,361,627**	**15,850,785**



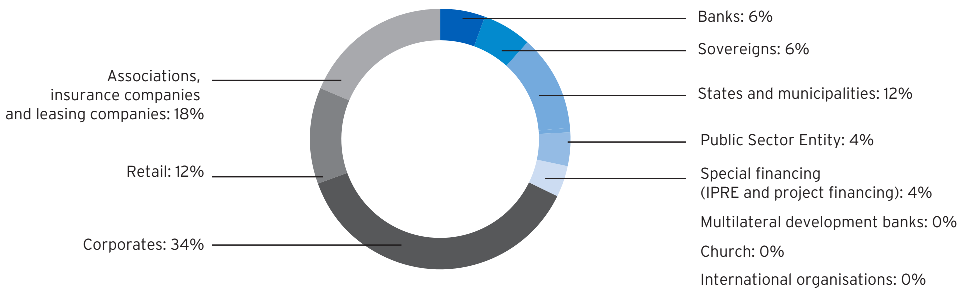
Exposures are also classified by credit ratings, as follows:

Rating category	Exposure (EUR '000)[1] 31 Dec. 2015	31 Dec. 2014
1A-1E*	9,084,973	9,550,764
2A-2E	3,006,861	3,152,913
3A-3E	2,326,263	2,249,692
4A-4E	518,214	483,951
5A-5E	425,316	413,464
Total		**15,850,785**



Segment	Exposure (EUR '000)[1] 31 Dec. 2015	31 Dec. 2014
Banks	885,232	1,722,839
Sovereigns	935,342	895,353
State governments and local authorities	1,818,669	1,823,647
Multilateral development banks	24,332	24,092
International organisations	56,324	56,125
Public sector entities	650,669	759,265
Special purpose finance (IPRE and project finance)	606,274	655,570
Corporates	5,722,363	5,380,884
Retail customers	1,811,877	1,759,154
Religious communities	26,856	28,019
Associations, insurance companies and leasing companies	2,823,690	2,745,835
Total	**15,361,627**	**15,850,785**

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



Credit risk mitigation

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

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

Credit risk situation in 2015

CHF loans with customer CHF foreign exchange risk

The amounts of loans with customer CHF foreign exchange risk in euro and their rating grades are as follows:

EUR '000	31 Dec. 2015	31 Dec. 2014
Investment grade	897,936	915,615
Non-investment grade	253,231	262,375
Default	35,523	39,635
Unrated	94	-
Total	**1,186,784**	**1,217,624**

In the investment grade category, there is a significant concentration of lending to a leasing company with public sector business. The non-investment grade category consists predominantly of private housing financing.

Heta Asset Resolution AG

The notice on Heta issued by the FMA on 1 March 2015 created a situation that directly affects the HYPO NOE Group. In 2006 and 2007 the HYPO NOE Group subscribed to Hypo Alpe-Adria-Bank International AG (now Heta) bonds guaranteed by the State of Carinthia and maturing in 2017. These bonds fall under the aforementioned FMA notice. There are no other secured or unsecured loans or advances to Heta. The Heta bonds held by the Group fall due in the second half of 2016 and 2017 – in other words, after the FMA's moratorium has expired. In its special notice, the FMA concludes that in addition to Heta's current overindebtedness, the company would become insolvent in the near future (i.e. after 2016 at the latest) unless regulatory measures were taken. It is therefore possible that the FMA could extend the moratorium, impose further measures pursuant to the Federal Act on the Recovery and Resolution of Bank (including creditor participation by means of instruments that could result in Heta defaulting on its obligations) or take similar steps which would affect repayments of principals as well as interest payments. In light of these considerations, the management boards of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG decided on the basis of a valuation model to recognise impairments of EUR 63.9m in profit or loss as of 31 December 2014. In the course of preparing the financial statements for the first half of 2015, the model assumptions were updated on the basis of the latest information, and with effect from 1 January 2015 no further interest income was recognised on the HETA issue. This change resulted in an additional writedown of EUR 20.6m, bringing the cumulative total writedown since 2014 to EUR 84.5m as at 30 June 2015.

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

The estimates were based on relevant and publicly available information on the Heta situation. The risk associated with future payments was taken into account by means of appropriate discounts. The effect of delayed payments was taken into consideration by means of discounting with risk-free discount rates commensurate with the currencies and maturities of the bonds. As part of the process of reviewing the valuation assumptions as at 31 December 2015, the following new information was taken into consideration. Heta's financial statements as at 30 June 2015, published in August 2015, and Heta's corporate presentation of 20 December 2015 give further details of the winding-up plans. The valuation model was updated on the basis of the new situation in the second half of 2015, necessitating an additional writedown of EUR 2.6m. The cumulative writedown (2014 and 2015) through profit or loss for 2014 and 2015 amounted to EUR 87.1m as at 31 December 2015. The HYPO NOE Group will nonetheless be able to absorb the effects of the debt moratorium imposed on Heta.

The ECB's recommendation to recognise a writedown of at least 50% of the nominal value of the state-government-backed Heta debt instruments is incompatible with the current estimates based on information available to the Group.

The FMA moratorium imposes a temporary suspension of Heta's liabilities to its creditors, including the Heta Asset Resolution AG bonds held – directly and on a consolidated basis – by HYPO NOE Gruppe Bank AG, which has filed an appeal against the FMA moratorium.

Pfandbriefbank (Österreich) AG

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

As a result of the FMA notice of 1 March 2015, Heta is not permitted to repay amounts owing to Pfandbriefbank. However, Pfandbriefbank (Österreich) AG must redeem debt instruments issued to third parties on behalf of Heta. If Pfandbriefbank (Österreich) AG does not receive sufficient funding from its member institutions and guarantors for the outstanding payments, and is without recourse, this would lead to a cross default on all debt instruments issued by Pfandbriefbank (Österreich) AG. These amount to around EUR 3.3bn, and creditors would be entitled to demand repayment directly from any member institution and guarantor.

As part of an agreement with the member institutions and the State of Carinthia, the Management Board of HYPO NOE Gruppe Bank AG has undertaken to provide financing for one-eighth of the EUR 1.2bn of debt instruments issued on behalf of Heta, i.e. about EUR 155m. This amount includes the share of the State of Lower Austria and that of HYPO NOE Gruppe Bank AG, of which around EUR 84m in respect of instruments repayable by 31 December 2015 has already been assumed. The amount unpaid is shown under Note 6.5.2 Credit risks. The State of Lower Austria, in a unanimous resolution of the Lower Austrian parliament on 19 March 2015 and at a meeting of the Lower Austrian government on 24 March 2015, agreed to guarantee the obligations of HYPO NOE Gruppe Bank AG, in fulfilment of its joint and several liability pursuant to the Pfandbriefstelle Act. The guarantee has been recognised by the Group as a financial guarantee in the meaning of paragraph 9 IAS 39, so that in 2015 no recognition of a risk provision was necessary. In return, HYPO NOE Gruppe Bank AG undertook to pay an appropriate consideration (less the set-off of refinancing costs incurred) as well as full compensation for drawdowns in the form of a debt warranty contingent on the Bank's future profits. The value of the debt warranty at 31 December 2015 was EUR 10.9m and was taken to expense. With regard to the agreement, there is a risk that other member institutions or guarantors may not fulfil their obligations under the Pfandbriefstelle Act. In such an event, new agreements might have to be concluded.

Other

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

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

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

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

The credit portfolio shows no notable concentrations of risk from a Group perspective, with the exception of the loans mentioned above. Public sector financing in Austria accounts for the bulk of business activities.

Group Strategic Risk Management regularly checks the non-performing asset (NPA) ratios and the NPA coverage of individual members of the Group. The NPA ratio is defined as the total exposure on all default (5A-5E rated) customers divided by total credit risk exposure. As at 31 December 2015, the HYPO NOE Group's NPA ratio was 4.47% (31 Dec. 2014: 3.43%). The NPA coverage is defined as risk provisions (individual and collective impairment allowances, and credit-related provisions) divided by the total exposure on default customers (5A-5E rated). Group coverage as at 31 December 2015 was 31.7% (31 Dec. 2014: 38.6%).

The non-performing loan (NPL) ratio, defined as total exposure on default customers divided by total loans and advances to customers, is also calculated at Group level. As at 31 December 2015 the NPL ratio was 2.85% (31 Dec. 2014: 2.30%).

Further developments

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

The further improvement of credit risk management includes improving organisational processes for the management of risk (watch list, continuous evaluation of provisions, and forbearance), tighter monitoring, and active portfolio management (risk transfer and risk concentration, and structure and concentration of securities).

Market risk

General

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

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

The HYPO NOE Group's market risk management strategy sets out the guidelines for managing the various Bank-specific market risks.

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

In the HYPO NOE Group no internal risk capital is earmarked for commodity price risk, share price risk and fund risk, and consequently no substantial risks may be incurred in these market risk categories.

The overriding goal of the Group's market risk management activities is guaranteeing adequate capital coverage of the market risks incurred at all times, and ensuring that individual risk positions are transparent and are appropriately monitored and managed. Based on this goal, the Group has defined the following principal objectives for market risk management:
- Identifying and evaluating all of the Bank's key market risks
- Taking into account key market risks in the calculation of the Bank's total risk-bearing capacity and in Bank-specific stress testing scenarios
- Optimising the allocation of risk capital and market risk positions with respect to risk and earnings expectations
- Taking earnings expectations and risk tolerance into consideration in planning processes
- Complying with statutory requirements

Based on these objectives, risk policy principles were defined as part of the process of determining the market risk strategy, and these strategic guidelines are implemented in the course of operational market risk management activities:
- Identifying and regularly evaluating market risks
- Specifying and regularly reviewing suitable models and processes for measuring market risks
- Quantifying market risks on the basis of the processes established
- Determining management's tolerance and appetite for the various types of market risk
- Identifying and complying with statutory regulations and environmental conditions
- Limiting and monitoring market risks on the basis of the chosen risk tolerance
- Appropriate reporting

Interest rate risk in the banking book

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

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

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

Interest rate risk management

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

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

Banking book

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

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

Interest rate risk is assessed using gap analysis and interest rate sensitivity (average of the five worst deteriorations in net present value from ten interest rate scenarios for the entire banking book). In addition to parallel shifts (100 and 200 basis points), twists in the yield curve (both on money markets and on capital markets) are also modelled in the scenarios.

Risk measurement in accordance with the OeNB interest rate risk statistics takes place in compliance with regulatory requirements. Fixed interest rate gaps between the assets and liabilities sides of the banking book are calculated and then multiplied by a weighting factor. The OeNB sets a weighting factor for each maturity band, which is equivalent to twice the modified duration of a zero-coupon bond and is designed to show the effect of a 200 bp interest rate shift on present values. Risk is calculated separately for each of the main currencies, and the total risk per currency is arrived at by adding absolute figures.

Individual portfolios

In addition to monitoring and management of the banking book as a whole, limits are also set and monitored in the control system for the nostro portfolio and IFRS earnings- or equity-related sub-portfolios, using a 1 bp parallel shift. For non-linear positions, appropriate limits depending on the risk profile and corresponding to a 1 bp parallel shift limit are imposed. The individual portfolios are as follows:

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

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

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

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

Interest rate risk in 2015

The OeNB statistics indicate that interest rate risk was moderate relative to the regulatory limit (20% of eligible capital), with equity investments in a rolling fixed income portfolio making a significant contribution to risk utilisation. The following table shows the results of the OeNB regulatory interest rate risk statistics as at 31 December 2015 and 31 December 2014:

OeNB regulatory interest rate risk statistics	31 Dec. 2015	31 Dec. 2014
OeNB interest rate risk indicator	9.24%	7.59%

The following tables show the interest rate risk positions taken by the HYPO NOE Group as at 31 December 2015 (above) and 31 December 2014 (below):

Interest rate risk positions (assets-liabilities) 31 Dec. 2015, EUR '000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	2,155,948	-852,628	1,303,319
1-3 months	-18,308	-2,344,850	-2,363,158
3-6 months	1,521,068	-844,51	676,558
6 months-1 year	-241,869	556,719	314,85
1-2 years	-1,427,257	949,304	-477,953
2-3 years	-126,223	441,458	315,235
3-4 years	-241,423	572,251	330,827
4-5 years	-492,102	601,309	109,207
5-7 years	-778,002	943,876	165,874
7-10 years	243,598	51,648	295,247
10-15 years	-240,833	107,727	-133,106
15-20 years	16,992	-56,059	-39,067
Over 20 years	178,587	-182,043	-3,456

Interest rate risk positions (assets-liabilities) 31 Dec. 2014 (EUR '000)	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	1,970,685	-984,153	986,533
1-3 months	632,908	-2,974,061	-2,341,153
3-6 months	1,393,830	-714,457	679,373
6 months-1 year	-138,826	433,495	294,669
1-2 years	-550,274	493,731	-56,543
2-3 years	-1,215,872	1,299,627	83,755
3-4 years	-157,518	515,092	357,573
4-5 years	-268,843	590,275	321,432
5-7 years	-818,48	962,375	143,896
7-10 years	-301,895	494,308	192,413
10-15 years	-334,129	135,69	-198,439
15-20 years	68,881	-95,574	-26,693
Over 20 years	211,155	-225,157	-14,002

As at 31 December 2015 risk utilisation was 57.4% of the total limit of EUR 43m (2014: 46.4% of the total limit of EUR 35.5m). The interest rate risk limit was increased by reallocating risk capital from other risk categories (meaning that there was no increase in overall risk). This gave the Bank additional leeway to invest in the fixed-rate equity book and assume strategic interest rate risk positions, while also limiting other types of risk for which utilisation is higher. The table below shows the results of the various interest rate scenarios for the HYPO NOE Group, and how they are reflected in the internal limits, as at 31 December 2015 and 31 December 2014:

	31 Dec. 2015		31 Dec. 2014	
Interest rate scenario, total banking book, EUR '000	**Change in present value**	**Negative change in present value**	**Change in present value**	**Negative change in present value**
No shift				
Shift +100 bp				
Shift -100 bp	26,011		11,863	
Shift +200 bp*	-47,569	-47,569	-35,128	-35,128
Shift -200 bp	54,500		27,335	
Twist CM +100 bp	-19,618	-19,618	2,630	
Twist CM -100 bp	19,806		-5,495	-5,495
Twist MM +100 bp	-9,919	-9,919	-19,242	-19,242
Twist MM -100 bp	7,006		7,913	
Twist 1d +100 bp 30y -250 bp	21,114		-4,545	-4,545
Twist 1d -100 bp 30y +250 bp	-21,121	-21,121	7,067	
Internal risk**	0	-24,665	0	-16,612
Warning level (95% of limit)	**-40,850**		**-33,725**	
Limit/utilisation (%)	**-43,000**	**57.36%**	**-35,500**	**46. 79%**

* Regulatory scenario

**Average of five worst deteriorations in net present value

The following factors need to be borne in mind when using sensitivity analyses:

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

The following tables show the results of the internal interest sensitivity analysis for the Group's individual sub-portfolios as at 31 December 2015 (above) and 31 December 2014 (below):

Internal sub-portfolios for interest rate risk monitoring as at 31 Dec. 2015, EUR '000	Shift +1 bp	Limit	Utilisation (%)
Nostro portfolio	-187	-315	59.30%
AFS reserve	-187	-375	49.81%
IFRS earnings portfolio (linear)	-10	-50	19.61%
IFRS earnings portfolio (non-linear)	-7	-25	26.67%

Internal sub-portfolios for interest rate risk monitoring as at 31 Dec. 2014, EUR '000	Shift +1 bp	Limit	Utilisation (%)
Nostro Portfolio	-146	-315	46.35%
AFS Rücklage	-146	-375	38.93%
IFRS GuV (linear)	0	-40	0.00%
IFRS GuV (nicht linear)	0	-25	0.00%

In 2015 the Group took an open CMS derivative position following the sale of the underlying, which had a maturity date of 2017. The risk was included in the non-linear IFRS earnings portfolio on the basis of a 1 bp twist risk.

There are also two CMS positions and one USD/EUR FX basis spread risk position. Following the termination of the on-balance-sheet hedge, the changes in the present values of these positions were recognised in the IFRS statement of financial position without an offsetting position. The risks associated with these positions are also regularly monitored on the basis of a 1 bp shift (1 bp twist in the yield curve for CMS positions and a 1 bp change in the USD/EUR FX basis spread). The following table shows the results of the internal interest sensitivity analysis for these positions as at 31 December 2015 and 31 December 2014:

1 bp risk for derivative positions affecting the IFRS earnings portfolio, EUR '000	31 Dec. 2015	31 Dec. 2014
CMS	-20	n.a.
FX basis spread risk, USD/EUR	-25	n.a.

In the period under review there were no material changes in the methods used to determine, measure, monitor and manage interest rate risk.

Credit spread risk

Credit spread risks are particularly important in connection with the Group's own investments, and these risks are monitored and reported on in the monthly risk management report. The credit spread risk is calculated for the whole nostro portfolio in the banking book using a value-at-risk approach based on historical credit spread scenarios. Correlations between historical credit spreads are taken into account (variance/covariance approach). Time series (monthly credit spread data for a maximum of five years prior to the reporting date) feed into the analysis and are given an equal weighting (decay factor of 1). This indicator measures the potential loss in value from widening spreads that would be realised by selling the whole securities portfolio on a gone concern basis. The following table shows the results of the value-at-risk analysis of credit spreads for the HYPO NOE Group as at 31 December 2015 and 31 December 2014, assuming a holding period of one year and with a confidence level of 99.9%:

Credit spreads, value at risk (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2015	31 Dec. 2014
Nostro portfolio, total	-28,553	-34,010

The reduction in 2015 was mainly attributable to declining volumes.

There were no significant changes in the methods used to determine, measure, monitor and manage credit spread risk during the reporting period.

Foreign exchange risk

The HYPO NOE Group's conservative risk policies are supported by very strict internal limits on open currency positions. The use of refinancing in the same currency and FX derivatives means that foreign exchange risks for the Group are effectively eliminated. In accordance with Article 92(3)(c)(i) CRR in conjunction with Article 351 et seqq CRR, as at 31 December 2015, and throughout 2015, the Group was not subject to the own funds requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign exchange positions as a whole is below this figure.

The residual foreign exchange risk for all open currency positions is regularly measured and monitored using a value-at-risk approach based on historical foreign currency fluctuations. Correlations between the various currencies are taken into consideration (variance/covariance approach). Weighted time series (daily exchange rate data for approximately three years prior to the reporting date) feed into the analysis (decay factor of 0.94). The following table shows the results of the value-at-risk analysis for the HYPO NOE Group's currency positions as at 31 December 2015 and 31 December 2014, assuming a holding period of one year and with a confidence level of 99.9%:

Currency positions, value at risk (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2015	31 Dec. 2014
Currency risk exposure, total	151	146

Due to the strict limits in place, the Group had no significant open Swiss franc positions and there were no material effects arising from such positions.

There were no significant changes in the methods used to determine, measure, monitor and manage foreign exchange risk during the period under review.

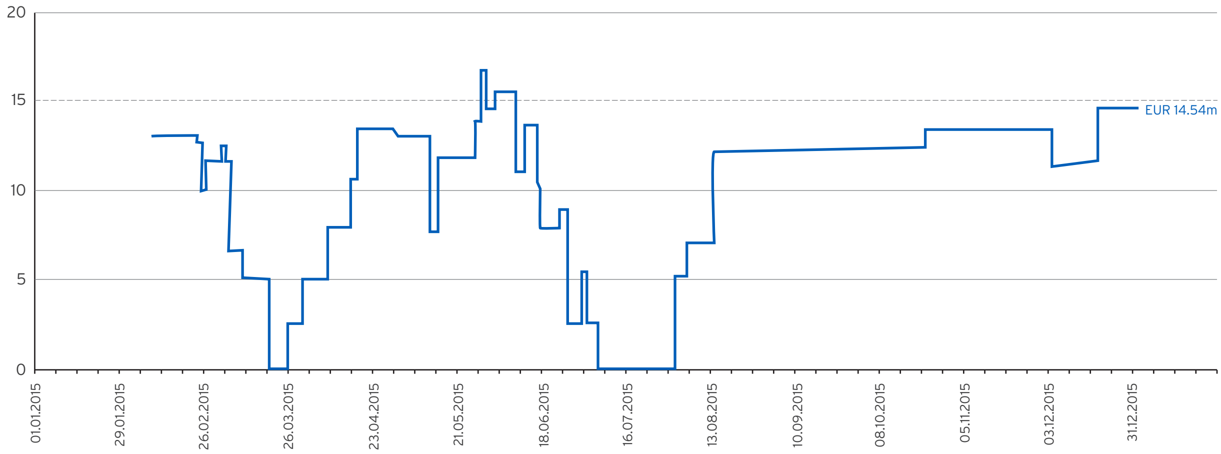
Options risk

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

As of 31 December 2015 the Group had three significant interest rate floor options which were concluded as economic hedges against interest rate risk arising from declining interest rates. All of these options had residual maturities of less than two years. As a result of this long position, economic losses are limited to the purchase price. However, regular measurement and recognition at fair value may lead to larger effects in certain periods.

Trading book risk

The Group does not engage in any business that requires it to maintain a large trading book as defined by the Capital Requirements Regulation. It maintains a small trading book in accordance with Article 94 CRR, and the volume of business is also limited in line with the provisions of that Article. Sensitivity limits and maximum loss limits (2015: EUR 650,000), including an early warning indicator (2015: EUR 300,000) that reduces the sensitivity limit by 50%, have been set. Day-to-day monitoring is the responsibility of Strategic Risk Management Department. The following table shows the utilisation of the small trading book in 2015 (in EUR m):



Basis risk in hedge accounting

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

CVA/DVA risk

When calculating the fair value of derivative instruments, a credit valuation adjustment (CVA) must be taken into account for counterparty risk and a debt valuation adjustment (DVA) for the Bank's own credit risk. The refinement of the valuation methodology resulted in a move towards a market-based valuation process, and the effects of the CVA and DVA are recognised in consolidated profit and loss. Strategic Risk Management carries out regular assessments of these effects.

On-balance-sheet market risk: sensitivity analysis

The following tables show a sensitivity analysis that illustrates the impacts of changes in key market parameters affecting the Group's profit and equity during the next financial year; these changes were considered possible as at the end of the reporting period. The effects on net interest income and net trading income were considered when calculating profit for the year. The sensitivity analysis was prepared for the first time as at 31 December 2015. The methods and assumptions applied are briefly explained below – the assumed potential fluctuations in the market are based on realistic and expected changes, and do not represent stress or worst-case scenarios.

Interest rate risk: the assumptions applied in the annual budget for 2016 were used to determine the sensitivity of risk to changes in interest rates. Parameters were selected and analysis performed for three interest scenarios. The Bank's forecast for interest rate developments was defined as the baseline scenario. The interest rate shifts used in the sensitivity analysis represented the difference between the baseline scenario and the scenario with the largest negative effects on net interest income. Owing to low interest rates, and taking into account natural interest rate floors, both increases and decreases in interest rates currently have a positive impact on net interest income. The following table shows the interest rate shifts for each indicator at 31 December 2015, as applied in the analysis.

Interest rate shifts used in analysis of interest rate risk at 31 Dec. 2015

EONIA	ECB tender	One-week term deposit	3-mth Euribor	6-mth Euribor	IRS 1yr	IRS 2yr	IRS 5yr	IRS 10yr	UDRB
-0.10%	-0.04%	-0.10%	-0.06%	-0.06%	-0.24%	-0.34%	-0.56%	-1.05%	-0.56%

In order to ensure the consistent presentation of interest rate risk for the various risk categories concerned, these interest rate shifts served as the basis for the following sensitivity analyses:

- Calculation of the effects of variable rate positions in the entire banking book on net interest income
- Calculation of the effects of fair value positions on net trading income (including options and positions from the small trading book)
- Calculation of the effects of available-for-sale positions on equity

The figure provided by the sensitivity analysis for net interest income is the difference between net interest income in the most negative scenario simulated and in the baseline scenario.

For other interest rate risk sensitivities, the sensitivity effect of an interest rate shift 1 bp above the shift calculated for the relevant indicator in the analysis is scaled up on a linear basis, which leads to a slight overestimation.

A 10 bp change in basis spreads was used to determine the impact of current USD/EUR FX basis spread risk positions on net trading income.

Credit spread risk: in order to calculate the sensitivity of credit spread risk, the value-at-risk model described above in the section on credit spread risk was applied, assuming a holding period of one year and a confidence level of 95% (i.e. 5% probability). All positions affecting profit for the year (fair value portfolio) or equity (available-for-sale portfolio) were included in the analysis.

Foreign exchange risk: in order to calculate the sensitivity of risk to exchange rate fluctuations, the value-at-risk model described above in the section on foreign exchange risk was applied, assuming a holding period of one year and a confidence level of 95% (i.e. 5% probability). All relevant foreign exchange positions were included in the calculation.

Options risk: options are only recognised at fair value and changes in valuation are reported under net trading income. Due to the short time to maturity of the existing options, volatility does not have a significant impact on the calculation of risk sensitivity, so the analysis only takes account of interest rate risk based on the defined interest rate shifts for such risks (see also the section on interest rate risk, above).

Risk arising from the small trading book: the following parameters were defined to measure the sensitivity of risk to changes in market parameters that affect the trading book: for interest rate risk, the defined interest rate shifts (see also the section on interest rate risk, above); for credit spread risk, a 50 bp increase in spreads; and for foreign exchange risk, a 20% change in exchange rates. The trading book is managed on a daily basis. Timely management combined with a limit of EUR 650,000 on year-to-date losses (including a 50% reduction in the sensitivity limit in the event of a loss of EUR 300,000 or more) places additional limits on potential losses.

CVA and DVA risk: to determine sensitivity to fluctuations in the CVA and DVA, the CVA for the unsecured derivative portfolio as at 31 December 2015 is recalculated in line with the Bank's expectations for interest rate changes in 2016 and an average one-notch downgrade in the internal rating, which would result in an average rise of around 40 bp in credit spreads. The required CVA is then compared with the figure recognised at year-end 2015.

A summary of the results of the sensitivity analysis for market risk at 31 December 2015 and 31 December 2014 (where available) is provided in the tables below:

Effect of market risk on profit for the year: sensitivity analysis, EUR '000	31 Dec. 2015	31 Dec. 2014
Interest rate risk		
Effect of variable-rate positions on net interest income	+2.018	n.a.
Effect of linear fair value positions on net trading income	+1.029	n.a.
Effect of non-linear fair value positions on net trading income	+2.633	n.a.
Effect of changes in FX basis spreads on net trading income	-250	n.a.
Credit spread risk		
Effect of fair value portfolio on net trading income	-75	-51
Foreign exchange risk		
Effect of open currency positions on net trading income	-80	-78
Options risk		
Effect of valuation of interest rate options	+55	n.a.
Trading book risk		
Effect of valuation of interest rate risk-bearing trading book positions	+508	0
Effect of valuation of credit spread risk-bearing trading book portfolios	-372	0
Effect of valuation of foreign exchange risk-bearing trading book portfolios	-551	0
CVA/DVA risk		
Effect of unsecured derivatives on net trading income	-3.432	n.a.

Effect of market risk arising from the available-for-sale portfolio on equity: sensitivity analysis, EUR '000	31 Dec. 2015	31 Dec. 2014
Interest rate risk	+10,472	n/a
Credit spread risk	-12,987	-15,568

Liquidity risk

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

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

The following table shows a maturity analysis for the Group's non-derivative financial liabilities including existing financial guarantees, and for derivative financial liabilities and outstanding loan commitments as at 31 December 2015 and 31 December 2014. Presentation is subject to the following rules:

- Undiscounted contractual cash flows (including payments of principal and interest) are shown
- In the case of liabilities with variable cash flows, the future cash flows are calculated on the basis of forward rates.
- Liabilities are reported at the earliest possible date that they can be called in by the counterparty (sight deposits and savings deposits are therefore shown in earliest maturity band, regardless of their actual maturities)
- Financial guarantees are allocated to the earliest maturity band, in line with the Bank's conservative approach
- Finance lease obligations are included at the expected time of payment
- Outstanding loan commitments are included at the earliest possible time of availment
- Liabilities arising from derivative transactions based on master agreements do not include any netting agreements
- Cash flows from interest rate derivatives are included on a net basis
- Repayments for obligations arising from foreign exchange derivatives and forwards are presented gross

Financial liabilities – maturity analysis as 31 December 2015, EUR '000	0-1M	1-3M	3-12M	1-5Y
OeNB tender/GC Pooling repo	605,034	0	0	0
Fixed-term interbank deposits	102,035	31,332	147,471	28,444
Liabilities from collateral received for derivatives	107,630	0	0	0
Customer deposits	1,859,773	455,129	357,480	81,757
Unsecured own issues	84,198	308,746	562,591	3,755,914
Secured own issues	15,296	19,639	86,298	2,099,253
Financial guarantees	119,657	0	0	0
Finance lease obligations	17,560	38,491	164,577	568,248
Derivative liabilities	138,782	169,514	36,574	227,037
Loan commitments	1,355,257	0	0	0

Financial liabilities – maturity analysis as 31 December 2014, EUR '000	0-1M	1-3M	3-12M	1-5Y
OeNB tender/GC Pooling repo	1,040,012	0	0	0
Fixed-term interbank deposits	151,932	75,016	174,174	31,769
Liabilities from collateral received for derivatives	110,770	0	0	0
Customer deposits	1,756,365	35,653	59,149	3,328
Unsecured own issues	41,707	207,537	395,515	4,887,645
Secured own issues	15,261	10,496	94,439	1,265,753
Financial guarantees	141,731	0	0	0
Finance lease obligations	13,547	28,874	179,584	697,216
Derivative liabilities	9,355	21,911	37,287	163,090
Loan commitments	1,223,716	0	0	0

The majority of derivative liabilities are collateralised with cash, or arise due to the inclusion of gross values for foreign exchange derivatives and forwards. As a result, actual net liquidity outflows will be less than the figure shown in the maturity analysis. In connection with derivatives with credit support annexes (CSAs), the general risk of remargining is taken into account in the calculation of 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 year to 31 December 2015 and to 31 December 2014, expressed in EUR '000, is shown in the table below.

31 Dec. 2015	31 Dec. 2014
305,000	180,000

This increase was mainly attributable to volatility on the euro fixed-income markets in 2015.

Loan commitments include unutilised credit lines and loan facilities as well as revolving credit lines (e.g. overdraft facilities and cash advances), where there is a strong likelihood that the unutilised credit lines/loans will be used within the contractually agreed period. Credit lines can be used at any time, meaning that a higher degree of uncertainty is associated with utilisation and the maturity date. Public sector customers with which close relationships exist account for a significant proportion of unused credit lines. On account of this close relationship, planned use of the credit line by the customer takes place in consultation with the Bank's relevant market units. This in turn facilitates forward planning of the Bank's refinancing requirements.

The Group's main sources of finance are secured and unsecured issues, and deposits from retail and institutional customers (including international financial institutions) and SMEs. The interbank market, OeNB tenders and GC Pooling repos are the primary means of managing liquidity.

There was a stronger emphasis on customer deposits during the reporting period, with a view to diversifying the Group's refinancing base. Given the nature of the segment, the concentration of deposits from individual retail customers and SMEs is usually low in volume terms, so the Bank has no significant concentration risks. By contrast, customer-specific concentrations are possible with institutional customers, some of which are in a position to make substantial investments. The Bank offers tailored products to achieve a certain distribution between various longer-term maturity bands. Liquidity risk management takes account of the possibility that institutional customers will withdraw deposits on maturity using scenarios based on experience of past crises; these form parts of the internal operational liquidity stress tests used to calculate the time to wall. The ten largest fixed-term deposits made by institutional customers in 2014 and 2015 were as follows (EUR '000):

	31 Dec. 2015	31 Dec. 2014
1	250,000	27,800
2	77,000	25,000
3	75,000	22,900
4	40,000	20,000
5	40,000	15,000
6	35,000	10,000
7	35,000	10,000
8	20,000	6,800
9	20,000	6,157
10	20,000	5,000

In spite of market instability, the unsecured capital market should continue to form part of the refinancing mix in the future, helping the Bank to broaden its refinancing base. The Bank has managed to complete a number of private placements despite the turbulent market conditions, thanks to the extensive customer network that it has built up across Europe and further afield over the past few years. That, and the choice of longer maturities has helped to prevent the creation of large concentrations of risk.

The Group has a number of substantial issues guaranteed by the State of Lower Austria that mature in 2017. In recent years the Group has successfully implemented a strategy of refinancing a substantial portion of these issues. This refinancing was used to buy back state-guaranteed issues with a maturity date in 2017 or to make short-term investments that mature in the same year.

In contrast, secured capital accounts for a significant portion of the Group's total refinancing, and will continue to do so in future; it is also rather more stable in times of crisis. Another important advantage is that available collateral in the cover pools can be converted into assets eligible as collateral for OeNB tenders and used to provide liquidity, for instance to cope with the effects of inactive markets in a crisis.

In addition to OeNB tenders and GC Pooling, the Group makes use of the interbank market to a limited extent (for details on the relevant limit, see "Implementation of liquidity risk management", below) to manage its short-term liquidity requirements. Conditioning is used to manage the volume of liquidity. No roll-overs are included in internal operational stress scenario assumptions (100% outflow at maturity), since the interbank market is usually not accessible during a crisis. The ten largest fixed-term interbank deposits in 2014 and 2015 were as follows (EUR '000):

	31 Dec. 2015	31 Dec. 2014
1	134,000	134,000
2	44,900	75,000
3	25,000	61,000
4	15,000	40,000
5	10,000	19,000
6	5,000	17,000
7	3,000	15,000
8	2,000	13,000
9	0	8,000
10	0	2,900

The HYPO NOE Group's available liquidity reserve is the primary instrument for managing and covering short-term maturities. The Group makes a distinction between high-quality liquid assets (HQLA) and other ECB or GC Pooling repoable collateral. Strategic liquidity is mainly generated by means of OeNB tenders and GC Pooling repos. The breakdown of the available liquidity reserve as at 31 December 2015 (above) and 31 December 2014 (below) was as follows:

Available liquidity reserve as at 31 Dec. 2015, EUR '000	TO	1M	3M	12M
HQLA	1,171	1,171	1,165	1,144
Sonstige EZB Tender oder GC Pooling repofähige Sicherheiten	666	1,299	1,280	892

Available liquidity reserve as at 31 Dec. 2014, EUR '000	TO	1M	3M	12M
HQLA	1,024	1,003	1,003	985
Sonstige EZB Tender oder GC Pooling repofähige Sicherheiten	328	1,085	1,056	897

The analysis of the available liquidity reserve does not include collateral utilised as at the end of the reporting period. This means that once the liabilities secured with such collateral (mainly OeNB tenders and GC Pooling) have matured, there is an increase in the portfolios included in the maturity profile.

By definition, the focus of investments made from the liquidity reserve is restricted to HQLA, OeNB tenders or GC Pooling repoable collateral. As national investments are given priority, there are mainly concentrations in low-risk Austrian government bonds.

In addition to the available liquidity reserve, which consists of securities eligible as collateral for OeNB tenders and GC Pooling as well as credit claims transferred to the OeNB, the Bank also has available securities in a variety of cover pools that can be used to generate short-term liquidity.

If the refinancing options are not sufficient to cover financial liabilities, the Bank's emergency processes and measures are triggered. Based on the internal liquidity risk management processes, the necessary actions takes place well before the occurrence of a situation that could pose a threat to the Group's continued operation.

The following information on the Group's liquidity risk management processes includes details of the individual components of the comprehensive liquidity risk management framework and the interaction between them. The framework takes into account all of the key aspects of liquidity risk management, including preparation and implementation of a refinancing and risk strategy adapted to the business model and the appetite for risk; use and regular monitoring of methods and processes geared to the determination, measurement, monitoring and management of liquidity risk; and implementation of effective escalation processes and contingency plans.

Liquidity risk management

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

This forms the basis of the fundamental liquidity management objectives:

- Maintaining an appropriate liquidity buffer to ensure solvency at all times, on the basis of a system of stress tests and limits
- Optimising the refinancing structure with respect to risk tolerance, maturity transformation and costs
- Detailed planning of the medium-to-long-term refinancing strategy
- Coordinating issuing activities in the money and capital markets
- Pricing commensurate with risks and costs
- Complying with statutory regulations and environmental conditions

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

- Identifying and regularly evaluating liquidity risks
- Identifying and regularly reviewing suitable models and processes for measuring liquidity risks
- Quantifying liquidity risks on the basis of the processes established
- Identifying and complying with statutory regulations and environmental conditions
- Determining management's risk tolerance and appetite
- Maintaining an appropriate liquidity buffer at all times
- Limiting and monitoring liquidity risks on the basis of the chosen risk tolerance
- Appropriate reporting
- Identifying potential emergency situations, preparing contingency plans and reviewing them regularly to ensure they are up to date
- Efficient and timely management of operational liquidity
- Implementing and monitoring the medium-to-long-term refinancing strategy
- Determining processes and procedures for risk-related allocation of liquidity costs

Implementing intraday liquidity risk management processes

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

Implementation of liquidity risk management

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

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

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

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

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

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

- For the **bank name crisis** scenario, a deterioration in HYPO NOE's individual liquidity is simulated. Other market participants are not initially affected by the crisis, but react directly by withdrawing their deposits from the HYPO NOE Group. At the same time, the Group's refinancing options in the money and capital markets become severely reduced or are non-existent.
- In the **market crisis** scenario, a general deterioration in the liquidity of money and capital markets is assumed, and access to money and capital market refinancing is also taken to be very limited. In addition, the available liquidity reserve can be expected to fall in value as a result of declining market prices, as market participants' risk aversion increases. The effects on customer deposits are assumed to be smaller than in a bank name crisis and – given that in a general crisis customers' need for security is increased – the fact that the Group is owned by the State of Lower Austria may even be seen as positive.
- The **combined crisis** links a bank name crisis with a market crisis. It should be noted that in such a crisis the stress factors of the two components are not simply added, but that special parameters come into play. Refinancing in the money or capital markets is hardly possible at all, the liquidity buffer shrinks as market prices fall, and customer deposits are withdrawn in larger volumes, although not to the same extent as in a bank name crisis, since other market participants are also affected.

With a limit of eight weeks (or 12 weeks in the case of an early warning), the HYPO NOE Group's time to wall as at 31 December 2015 was a respectable 34 weeks (31 Dec. 2014: 34 weeks). In addition to time to wall, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is calculated monthly as at the end of the current month, the end of the coming month and the end of the next year. It is a performance target in the Group's planning processes. The LCR reported to the regulator, on the basis of internal calculations, was 123% as at 31 December 2015 (31 Dec. 2014: 108%), and the Group's target for 2016 is to achieve 100%. Volume limits based on maturities are in place to control unsecured bank money market exposures. Daily monitoring and reporting is the responsibility of the Group Strategic Risk Management Department. The 30-day limit of EUR 500m, the 90-day limit of EUR 800m and the up to one year limit of EUR 1,000m were all observed throughout 2015.

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

The HYPO NOE Group uses economic capital as a major metric for structural liquidity risk. Economic capital measures the maximum possible net interest loss that can be absorbed. For liquidity risk it is calculated using higher costs, because of potentially higher refinancing spreads over a year. The basis is provided by the new business planning and the roll-over assumptions in the normal scenario. On the basis of historical funding costs, the maximum expected increase in refinancing costs over the period of a year is calculated with a given confidence level for each major funding instrument. Actual performance is then monitored. The economic capital for a limit of EUR 12m was EUR 6.3m as at 31 December 2015 (31 Dec. 2014: EUR 6.3m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn.

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

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

Contingency plan

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

Liquidity risk in 2015

The HYPO NOE Group's liquidity situation remains satisfactory. As well as sufficient assets eligible as collateral for ECB tenders, a broad funding portfolio is available. However, the Heta situation has severely restricted Austrian issuers' market access, and basically only benchmark mortgage-backed covered bonds can be issued at present. But even these issues are not oversubscribed, and in some cases the ECB currently accounts for up to 50% of the order book, on the basis of its asset purchase programmes. Austria's most recent covered issue clearly illustrates that the country's banks still do not have access to credit lines.

In spite of the difficult conditions on the Austrian capital market, the HYPO NOE Group completed a EUR 300m, five-year sub-benchmark issue backed by the mortgage cover pool in the third quarter of 2015. Senior unsecured issues totalling EUR 180m were placed with foreign investors – a reflection of the Group's strong international reputation.

The Group has a broad portfolio of short-term and long-term refinancing options. Nevertheless, there is still a focus on enhancing geographic and product-related diversification, with a view to reducing the Bank's dependence on regional and product-specific capital markets. Implementation of a secured cover pool represents another step in this direction. There is also a strong emphasis on Asian business, and the MTN programme is now listed on the Tokyo stock exchange.

The Group has significantly expanded its institutional customer deposits business and exceeded its budgeted target for the year. In 2016 further growth in deposits from institutional, corporate and retail customers and SMEs will be a priority.

Standard & Poor's reaffirmed the HYPO NOE Group's A/A-1 issuer rating in the third quarter of 2015.

Throughout 2015, the Basel III, LCR and NSFR regulatory indicators for liquidity risk limitation were calculated on the basis of the published standards and reported to the Austrian regulatory authorities. Where applicable, the minimum regulatory requirements were observed. Compliance with the statutory regulations will be underpinned by the integration of the requirements into the internal liquidity risk management and planning processes together with the strict Group-wide procedures and operational control processes already established by the Group Treasury and Strategic Risk Management departments.

Further developments

The HYPO NOE Group refines its liquidity risk management processes on an ongoing basis. The major developments in the Group's liquidity risk management processes in 2013 and 2014 were further refined during the reporting period, and where appropriate adapted in line with new strategic and economic conditions. The updated liquidity risk management manual provides a detailed description of the HYPO NOE Group's liquidity risk management framework (responsibilities, processes, systems, models, methods, etc.) in a single comprehensive document.

In liquidity risk reporting (LCR, NSFR, monitoring tools, etc.), the emphasis was on technical implementation of the revised regulatory requirements and first-time reporting of the LCR pursuant to Commission Delegated Regulation (EU) 2015/61.

Operational risk

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

Operational risks in the HYPO NOE Group are subject to a consistent Group-wide system of controls. The following processes and procedures are used to identify, evaluate and reduce operational risks:
- Ongoing identification and analysis of operational risk events, including introducing measures to avoid similar events in future and regular reporting to the Management Board
- Ongoing monitoring of the implementation and success of the measures, and submission of a quarterly status report to the Management Board
- Monitoring the potential future operational risk profile using key risk indicators
- Evaluating factors that could alter the risk profile, such as the introduction of new products or the outsourcing of activities
- Ongoing adaptation and improvement of existing guidelines
- Using the emergency plans that form part of the business continuity management (BCM) system to manage the risks that threaten business continuity
- Strict observance of the four-eye management principle to reduce the likelihood of the occurrence of risks
- Continuing education and training as part of staff development
- Insurance against various risks

There is also a particular emphasis on continuous improvements in the effectiveness and efficiency of operational risk management processes. The operation and adaptation of an integrated ICS is intended to reduce the probability of operational risk events and minimise their effect. Risks are systematically identified and assessed, controls are agreed and, where necessary, key processes are adapted.

Operational risk in 2015

Detailed information on operational losses in the year under review has been collected in a database. Improvements are seen as a major way of controlling operational risk: as operational risk events and near-miss incidents occur, appropriate improvements must be defined and implemented. In 2015 the requirements were defined for a new and more flexible database for recording operational risk events. The database was programmed in-house and testing is largely complete.

By and large, the results of early-warning and key risk indicators were satisfactory and as planned.

The ICS was updated in the course of the annual review and training courses were held.

As part of the BCM system, the existing emergency scenarios have been extended. Emergency simulations of functions in critical specialist departments including Treasury and Treasury Services were carried out and the results were integrated into the emergency scenarios. Uninterruptible power supply was extended to the St. Pölten and Vienna offices.

The risk content of new products is regularly assessed using a standard risk evaluation application which is an integral part of the product launch process.

2016 will see further optimisation of the internal control system. The introduction of the new database for operational risk should improve the opportunities for analysis. Training courses will be held in parallel with the rollout of the database in order to raise awareness of the importance of operational risk management.

Reputational risk

The HYPO NOE Group attaches great importance to avoiding reputational risk, and it is therefore treated as a separate risk category. Avoiding potential damage to the reputation of the HYPO NOE Group is a vital consideration when making business decisions, and a process for evaluating reputational risk is now in place.

Reputational risk is the danger of direct or indirect harm to the Group's reputation, and the opportunity costs entailed by such damage. Damage to the HYPO NOE Group's reputation can compromise its standing and undermine the confidence of stakeholders such as customers, providers of finance, staff, business partners and the community in the Bank. The reasons may lie in failure to live up to stakeholders' expectations.

Fulfilling those expectations is essentially a matter of putting effective business processes in place, and of sound risk monitoring and management. The Group's code of conduct sets out the common values and principles shared by all HYPO NOE employees. The HYPO NOE Group also takes care to avoid business policies and activities associated with unusual tax or legal risks, or with major environmental risks. A comprehensive approach to sustainability is part of HYPO NOE's guiding philosophy, and – especially in its lending activities – the Group applies its ethical guidelines and business principles in relation to environmental and social issues.

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

Other risks

Other risks consist largely of business risks (the danger of loss as a result of a deterioration in the economic environment or in the HYPO NOE Group's business relationships), strategic risks (the danger of losses arising from decisions concerning the Group's strategic focus and business development) and risks from the HYPO cross-guarantee scheme (see Note 8.6 Supplementary disclosures).

Business risk

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

Legal risks

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

Information on the provisions against legal risks arising from pending proceedings can be found in Note 6.25.1 Movements in provisions.

8.11 EVENTS AFTER THE REPORTING PERIOD

Pursuant to section 2a Financial Market Stability Act, on 21 January 2016 the Carinthian Compensation Payment Fund made a tender offer to the holders of state-government-backed Heta Asset Resolution AG debt instruments to purchase unsecured, state-government-backed senior debt instruments issued by Heta Asset Resolution AG at a price of 75% of face value, as well as state-government-backed subordinated Heta Asset Resolution AG debt instruments at a price of 30% of face value plus interest accrued until 1 March 2015. In addition, within four weeks of the legally binding liquidation of Heta Asset Resolution AG, each accepting holder will be paid the difference between the total amounts received from liquidation of Heta Asset Resolution AG and the total applicable Heta compensation amount plus the applicable voluntary premium. The transaction will only take place if the offer is accepted by a quarter of the outstanding nominal amount of all instruments subject to a given offer, and two-thirds of the outstanding nominal amount of all instruments subject to both offers.

This offer covers the entire EUR 225m of unsecured, state-government-backed senior Heta bonds held by HYPO NOE Group. The carrying value of these bonds as at 31 December 2015 after recognition of impairment was 64.15% of the nominal value. The offer also covers the entire pro rata liabilities assumed and still to be assumed by the State of Lower Austria and HYPO NOE Gruppe Bank AG in connection with the Heta receivables payable to Pfandbriefbank (Österreich) AG (one-eighth of approximately EUR 1.2bn), under an agreement of the Pfandbriefbank member institutions. Given the State of Lower Austria's guarantee in respect of the share of Heta receivables assumed by HYPO NOE Gruppe Bank AG, no risk provisions had been recognised for this item as at 31 December 2015. This guarantee is coupled with a debt warranty, for which a loss of EUR 10.9m was charged through profit or loss as at 31 December 2015.

At present it is impossible to foresee the implications of the creditors' acceptance or rejection of the tender offer for Austria's capital markets. Whatever the outcome, the effects could include increased refinancing costs for Austrian banks and restricted access to certain sources of funding. The possible rejection of the offer by investors also casts doubt on the timing and amount of repayments. If Carinthia becomes insolvent owing to rejection of the transaction, this could have consequences for Austrian participants in international capital markets. In addition, such an unprecedented event for a European economy would indirectly affect Austria's banking sector and the country's standing as a financial centre, posing a threat to the Bank's equity and refinancing activities, and leaving the Bank exposed to further potential losses. A detailed assessment of a potential improvement of the offer, and of a recovery rate above or below the 75% currently on offer is not possible at present.

The internal recovery rate of 64.15% applied in the annual financial statements is below the 75% offered by the Carinthian Compensation Payment Fund. Although the effects mentioned above cannot be evaluated, the Group believes that proper provision will be made for Heta receivables on the basis of a realistic assessment of the likelihood of those effects.

8.12 GOVERNING BODIES OF HYPO NOE GRUPPE BANK AG

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

Management Board

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

Supervisory Board

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

Delegated by the Works Council

- Hermann Haitzer
- Peter Böhm
- Franz Gyöngyösi
- Claudia Mikes

State commissioners

- Hans Georg Kramer, CFP, Federal Ministry of Finance
- Franz Ternyak, Federal Accounting Agency (until 31 December 2015)

Supervisory commissioners

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

St. Pölten, 22 February 2016

Peter Harold
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

DECLARATION BY THE COMPANY'S MANAGEMENT

We hereby confirm that to the best of our knowledge the consolidated financial statements of HYPO NOE Gruppe Bank AG give a true and fair view of the Company's assets, finances and earnings, in conformity with the relevant accounting standards; that the operational and financial review presents the course of the Company's business, and its results and financial condition in such a manner as to give a true and fair view of the Company's assets, finances and earnings; and that the operational and financial review describes the principal risks and uncertainties to which the Company is exposed.

St. Pölten, 22 February 2016

The Management Board

Peter Harold
Chairman of the Management Board
Responsible for
Sales & Treasury, Participations & Public Services,
Group Real Estate Business, Group Controlling, ALM &
Strategic Planning, Group Rating & Investor Advisory,
Group Marketing & PR, Group Human Resources,
Executive Board Affairs & Group General Secretariat,
Group Audit

Nikolai de Arnoldi
Member of the Management Board
Responsible for
Group Credit Risk Coordination,
Group Finance & Strategic Risk Management,
Ombudsman, Group Tax Advisory,
Group Intensive Care Management,
Group Credit Services, Group Treasury Services,
Group Payment Administration &
Custodian Bank Services, Group Legal,
Group Organisation, IT & Facility Management

AUDITORS' REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of HYPO NOE Gruppe Bank AG, St. Pölten, comprising the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2015 and the notes to the financial statements.

Management's responsibility for the consolidated annual financial statements

The Company's Management is responsible for the preparation and overall presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and with the additional requirements of section 59a Austrian Banking Act, as well as for the internal control system that the Management considers necessary to enable preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to provide an opinion on the consolidated financial statements on the basis of our audit. We have conducted our audit in accordance with the generally accepted auditing standards in Austria. These standards require the application of the International Standards on Auditing. According to those standards, we are required to adhere to professional standards of conduct, and to plan and perform the audit to obtain reasonable assurance about whether the consolidated annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion the consolidated annual financial statements conform to the law and give a true and fair view of the Group's financial position as at 31 December 2015, and of its financial performance for the year then ended, in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of section 59a Austrian Banking Act.

Without qualifying our opinion, we draw attention to the following:

- the comments by the Management Board in the notes to the consolidated financial statements (see "Credit risk situation in 2015" in the section on credit risk in Note 8.10 Risk management), which present the effects of the payment moratorium imposed by the Austrian Financial Market Authority on Heta Asset Resolution AG as of 1 March 2015 on Heta Asset

Resolution AG securities held by the Bank, as well as the Company's joint and several liability for Pfandbriefstelle der österreichischen Landes-Hypothekenbanken/Pfandbriefbank (Österreich) AG and related uncertainties;

- the comments by the Management Board in the notes to the consolidated financial statements (8.11 Events after the reporting period) and in the operational and financial review (Events after the reporting period), which present the effects of the tender offer made by the Carinthian Compensation Payment Fund on 21 January 2016 to the holders of state-government-backed Heta Asset Resolution AG debt instruments regarding the purchase unsecured, state-government-backed senior debt instruments issued by Heta Asset Resolution AG pursuant to section 2a Finanzmarktstabilitätsgesetz (Financial Market Stability Act), and related uncertainties.

Opinion on the Group operational and financial review

Pursuant to statutory provisions, the Group operational and financial review is to be audited as to whether it is consistent with the consolidated financial statements and as to whether any additional disclosures it contains are not misleading with respect to the Group's position. The auditor's report must also contain a statement as to whether the Group operational and financial review is consistent with the consolidated financial statements and whether the disclosures pursuant to section 243a(2) UGB (Austrian Business Code) are appropriate.

In our opinion the Group operational and financial review is consistent with the consolidated financial statements. The disclosures pursuant to section 243a(2) Austrian Business Code are appropriate.

Vienna, 23 February 2016

Deloitte Audit Wirtschaftsprüfungs GmbH

Thomas Becker m.p.
Certified public accountant

ppa. Wolfgang Wurm m.p.
Certified public accountant

The consolidated financial statements bearing our audit opinion may only be published or transmitted in the version certified by us. This audit opinion relates exclusively to the complete German-language consolidated financial statements, and operational and financial review. The provisions of section 281(2) Austrian Business Code apply to other versions.

REPORT OF THE SUPERVISORY BOARD

In 2015 the Supervisory Board discharged the duties incumbent upon it by virtue of the law and the articles of association, and was kept regularly informed by the Management Board on the course of business and the state of the Bank's affairs.

The accounts and records, and the **annual financial statements, as well as the operational and financial review** to the extent that it discusses the financial statements, have been audited by the independent auditors, Deloitte Audit Wirtschaftsprüfungs GmbH. As the audit gave rise to no objections and the statutory requirements were fully complied with, the auditors issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings, is in agreement with the annual financial statements for the year ended 31 December 2015 and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board, and hereby approves the 2015 annual financial statements in accordance with section 96(4) Aktiengesetz (Austrian Companies Act).

The auditors Deloitte Audit Wirtschaftsprüfungs GmbH audited the **2015 consolidated financial statements** for compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, as adopted by the EU, and the Group operational and financial review for compliance with the Austrian Business Code. The audit gave rise to no objections and the auditors found that the statutory requirements had been fully complied with. In the opinion of the auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) as adopted in the EU. The auditors confirmed that the Group operational and financial review is consistent with the consolidated financial statements, such that the statutory requirements for exemption from the obligation to prepare consolidated financial statements according to Austrian law are fulfilled, and issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings.

St. Pölten, 29 February 2016

The Supervisory Board

Günther Ofner
Chairman

LIST OF ABBREVIATIONS

AFS: available for sale
ALCO: Asset Liability Committee
ALM: Asset Liability Management
BaSAG: Federal Act on the Recovery and Resolution of Banks
BIRG: Bank Intervention and Restructuring Act
BELIG: Burgenländische Beteiligungs- und Liegenschaftsverwaltung GmbH (BELIG)
BRRD: Bank Recovery and Resolution Directive
BWG: Banking Act
CDS: credit default swap
CEE: Central and Eastern Europe
CEO: chief executive officer
CESEE: Central, Eastern and Southeastern Europe
CFO: chief financial officer
CRD IV: Capital Requirements Directive IV
CRO: chief risk officer
CRR I: Capital Requirements Regulation I
CSC: current service cost
CVA/DVA: credit/debt valuation adjustment
DBO: defined benefit obligation
EBA: European Banking Authority
EBRD: European Bank for Reconstruction and Development
ECB: European Central Bank
EIB: European Investment Bank
EIU: Economist Intelligence Unit
EMIR: European Market Infrastructure Regulation
ESI: economic sentiment indicator
FATCA: Foreign Account Tax Compliance Act
FMA: Austrian Financial Market Authority
FMSB: Financial Market Stability Board
FTE: full-time equivalent
FX: foreign exchange
GDP: gross domestic product
HaaSanG: Act on Restructuring Measures for Hypo Alpe Adria Bank International AG
HC: head count
Heta: Heta Asset Resolution AG
IAS: International Accounting Standard
ICAAP: internal capital adequacy assessment process
ICS: internal control and risk management system
IFRS: International Financial Reporting Standard
IMF: International Monetary Fund
INT: interest cost
IPRE: income-producing real estate
IT: information technology
KfW: Kreditanstalt für Wiederaufbau
LCR: liquidity coverage ratio
LGD: loss given default
LIP: loss identification period
MREL: minimum requirement for own funds and eligible liabilities
NPA: non-performing asset
NPL: non-performing loan
NSFR: net stable funding ratio
OECD: Organisation for Economic Cooperation and Development
OeNB: Oesterreichische Nationalbank (Austrian central bank)
OffV: Austrian Financial Market Authority Disclosure Order
OIS discounting: overnight index swap discounting
OMT: outright monetary transaction
OpRisk: operational risk
OTC derivatives: over-the-counter derivatives
OTC options: over-the-counter options
PIIGS: Portugal, Ireland, Italy, Greece, Spain
PD: probability of default
RICO: Risk Management Committee
S&P: Standard & Poor's
SMEs: small and medium-sized enterprises
SNB: Swiss National Bank
TLAC: total loss absorbing capacity
UGB: Austrian Business Code
WEG: Austrian Condominium Act
WIFO: Austrian Institute of Economic Research
YoY: year on year

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