HYPO NOE

# Annual Report 2018

HYPO NOE Group 2018 Annual Report
and magazine supplement

# Group financial highlights

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **IFRS consolidated statement of comprehensive income** | | |
| Net interest income | 111,933 | 108,861 |
| Impairment losses/gains on financial assets – IFRS 9 ECL | 10,590 | N/A |
| Risk provisions | N/A | 9,100 |
| **Profit before tax** | **47,992** | **38,764** |
| Income tax expense | -11,548 | -9,658 |
| **Profit for the year** | **36,444** | **29,106** |
| **IFRS consolidated statement of financial position** | | |
| Total assets | 14,060,065 | 14,367,184 |
| Financial assets – AC | 11,640,675 | N/A |
| Loans and advances to customers | N/A | 10,230,232 |
| Financial liabilities – AC | 12,106,624 | N/A |
| Debts evidenced by certificates | N/A | 7,283,886 |
| Equity (incl. non-controlling interests) | 663,398 | 675,276 |
| **Consolidated capital resources in accordance with CRR/CRD IV** | | |
| Eligible Tier 1 capital | 646,153 | 645,086 |
| Total eligible capital | 646,153 | 645,086 |
| Risk-weighted exposure to credit risk | 2,690,759 | 2,834,640 |
| Own funds requirements | 246,527 | 260,141 |
| Excess equity | 399,626 | 384,945 |
| Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR | 20.97% | 19.84% |
| Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR – fully loaded | 20.97% | 20.12% |
| Total capital ratio in accordance with Art. 92(2)(c) CRR | 20.97% | 19.84% |
| Total capital ratio in accordance with Art. 92(2)(c) CRR – fully loaded | 20.97% | 20.12% |
| **Operational information** | | |
| Number of employees at year-end | 789 | 812 |
| Number of branches | 27 | 27 |
| **Selected payments, levies and other public sector items** | | |
| Financial stability contribution (bank tax) | -8,724 | -9,403 |
| Prepaid income tax | -2,835 | -11,192 |
| Current income tax | -8,385 | -8,083 |
| Deferred income tax | -3,163 | -1,575 |
| Social security contributions and other pay-related contributions | -12,046 | -12,239 |
| Current tax assets | 12,147 | 20,659 |
| Deferred tax assets | – | 4,076 |
| Current tax liabilities | 13,574 | 19,349 |
| Deferred tax liabilities | 27,696 | 43,371 |
| **Key indicators[1]** | | |
| Return on equity before tax | 7.01% | 5.86% |
| Return on equity after tax | 5.33% | 4.40% |
| Return on assets | 0.26% | 0.20% |
| Cost-income ratio [2] | 66.96% | 67.78% |
| NPL ratio | 1.42% | 1.94% |
| LCR | 198.27% | 185.79% |

[1]See the financial review in the 2018 annual report for details of the calculation.
[2]The method of calculating the cost/income ratio was revised during the fourth quarter of 2018. See the financial review in the 2018 annual report for details.

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You can download the entire annual report here:

**https://www.hyponoe.at/en/ir**

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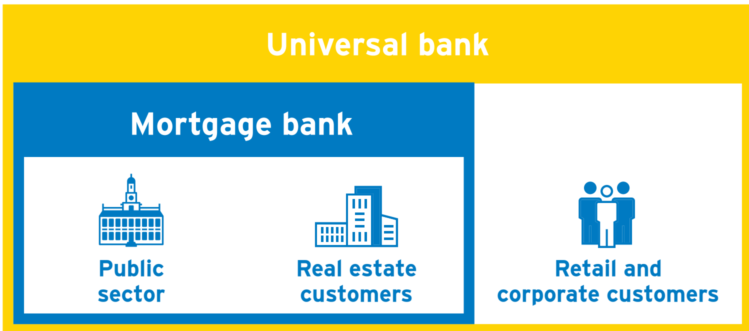
# HYPO NOE at a glance

**STRONG REGIONAL ROOTS.** HYPO NOE Landesbank is one of Austria's largest and oldest established state banks, and has a 130-year history in the banking and financial sector. It can count on a stable and reliable sole owner, the State of Lower Austria.

## Low-risk business model – tried and tested since 1888

Persistently low non-performing loan (NPL) and risk-weighted asset (RWA) ratios




## HYPO NOE's strategy

### REGIONAL FOCUS

As a long-established regional bank owned by the State of Lower Austria, HYPO NOE Landesbank has a profound understanding of local life. It plays a big part in economic development, progress and innovation.

### CLOSENESS TO CUSTOMERS

HYPO NOE Landesbank draws on its long experience and excellently trained workforce to offer its customers bespoke solutions. The Group's versatility enables it to provide customers in a wide variety of sectors with advice based on specialised expertise.

### SUSTAINABILITY

HYPO NOE Landesbank is committed to sustainable business practices, and responsible treatment of its customers, employees and suppliers, and society at large. Security and stability are cornerstones of the Bank's approach, and its lending policies are shaped by ethical principles.

**PERFORMANCE METRICS**

**1.4%**
NPL ratio

**2.7**
RWA*, EUR bn

* Risk-weighted exposure to credit risk

**21.0%**
CET1 ratio

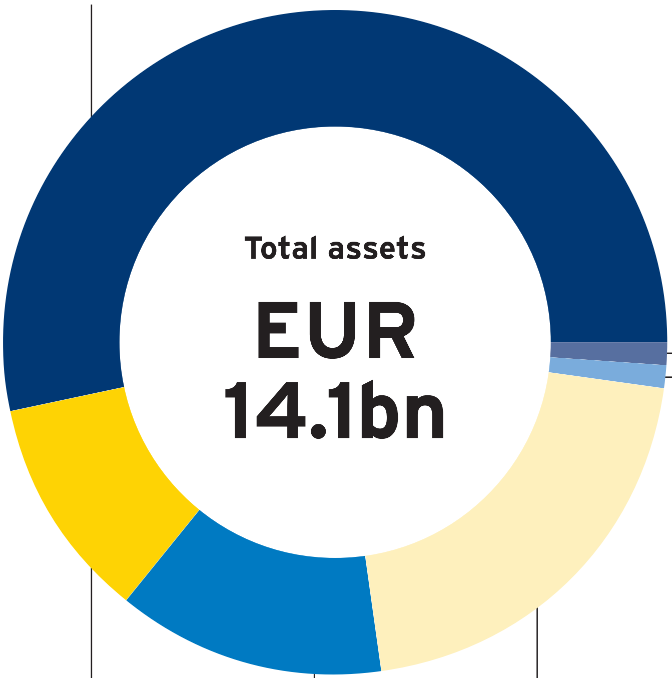
**A positive**
S&P issuer credit rating

**Aa1**
Moody's covered bond ratings

**Prime**
ISS-oekom sustainability

## The HYPO NOE Group's business segments

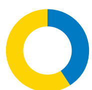
Assets, 31 December 2018




## Lower Austria and Vienna: a dynamic core market and strong regional economy

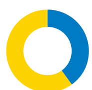
**40%**
Share of the population living and working in Lower Austria and Vienna

SOURCE:
AUSTRIAN FEDERAL ECONOMIC CHAMBER, 2019



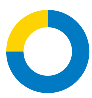
**41%**
Share of Austrian GDP generated in the two states

SOURCE:
AUSTRIAN FEDERAL ECONOMIC CHAMBER, 2019



**40%**
Proportion of Austrian SMEs accounted for by the region

SOURCE:
AUSTRIAN FEDERAL ECONOMIC CHAMBER, 2016



**75%**
Proportion of ATX-20 listed companies based in Lower Austria and Vienna

SOURCE:
VIENNA STOCK EXCHANGE, 2019

**20%**
Forecast population growth in Lower Austria up to 2080 (Lower Austria and Vienna are the fastest-growing federal states)

SOURCE:
STATISTICS AUSTRIA, 2018

# Positive outlook for the year's "most improved bank"

JANUARY TO DECEMBER 2018

## "Zukunftsfit 2020": ambitious but realistic

The Group's "Zukunftsfit 2020" ("Fit for the Future 2020") efficiency programme is driving leaner structures and processes, optimisation of its business model, and an investment focus on its digital infrastructure. The Group again took decisive action in these areas in 2018. For instance, a wholly owned subsidiary was reintegrated into the main bank, and the organisational structure was further streamlined. The steady reductions in administrative expenses demonstrate that the Group is keeping to its ambitious road map (see page 13).

MAY 2018

## Top marks from customers

HYPO NOE Landesbank was hailed as the "most improved bank of the year" at the annual Recommender Awards ceremony. The reason: the Bank's customer satisfaction ratings surged by 52.5%. The Austrian Financial Marketing Association's Recommender Awards have been measuring bank and insurance customers' satisfaction for 12 years now. The "jury" for this authoritative industry barometer is a sample of 8,000 people polled by market research firm Telemark Marketing.

**"Most improved bank of the year": HYPO NOE Landesbank won this accolade at the Recommender Awards ceremony.**

APRIL AND AUGUST 2018

## Two successful benchmark bond issues

A EUR 500m senior unsecured benchmark bond issue launched in April 2018 further widened HYPO NOE Landesbank's solid national and international investor base. And in late August, the Bank succeeded in placing a public sector covered bond issue of the same size. Due to the strong demand, it was once again able to refinance itself on the international capital market at highly advantageous terms.

MAY 2018

## Standard & Poor's raises outlook to positive

At the end of May, international rating agency Standard & Poor's affirmed its solid A/A-1 rating on HYPO NOE Landesbank and raised the outlook to positive on the back of sustained capital generation. On 31 December 2018, the HYPO NOE Group underlined its outstanding capital strength by posting a CET1 ratio of 21%, and today it is one of Austria's best rated, and hence soundest banks.

**The new branch in Stockerau is an outstanding setting for meetings with customers.**

OCTOBER 2018

## First new-look branch

The new branch design concept was a while in the making, but the big moment came on Austria's National Day, when the first restyled HYPO NOE Landesbank branch opened in Stockerau. Natural materials create a modern and welcoming atmosphere. The advance of digitalisation has transformed banking. The new branches reflect this, and offer room for in-depth advice on major life decisions (more on page 15).

**Accolade: HYPO NOE Landesbank's e-vehicle policy has earned an economic chamber award.**


NOVEMBER 2018

## HYPO NOE Landesbank wins plaudits for e-vehicle policy

HYPO NOE Landesbank is fleet of foot when it comes to the environment and climate change. The Bank began assembling an electric vehicle (EV) fleet in 2017, and has so far set up six fast-charging points, including one for customers and event attendees at the St. Pölten headquarters. Last year, EV use saved the Group 24 tonnes of $CO_2$ emissions. In November 2018 this initiative was rewarded when the Lower Austrian state government and economic chamber honoured the Bank for its eco-friendly e-vehicle adoption policy.

**A good team: since the end of 2018, Wolfgang Viehauser (l.) and Udo Birkner have formed the Management Board at the head of the HYPO NOE Group.**

# "Capital base is stronger than ever"

**NEW MANAGEMENT BOARD DUO.** Wolfgang Viehauser, Management Board Member Markets and Spokesman, and Management Board Member Finance, Risk & Operations Udo Birkner on the Bank's performance in 2018, that of its core market, the interest rate environment and strategic planning.

#1

**2018 brought a number of changes, including the fact that you now constitute a two-man Management Board. How does that affect your daily work and the Bank?**
VIEHAUSER: After the merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG in autumn 2017, the logical next step was to rationalise our structures. To that end we made changes that have given the Bank a leaner and more efficient set-up. One aspect of this is having not three but two remits on the Board – a step that has enabled us to leverage new synergies, for instance by merging front office units.

BIRKNER: We have been working together on the Management Board since the start of 2017. During this period we have got a lot of initiatives off the ground, and these are already bearing fruit. In particular, I am thinking here of the upgrade of the outlook on our solid Standard & Poor's A rating to positive. This shows that international rating agencies, too, are concluding that we are moving in the right direction.

#2

**How satisfied are you with performance in 2018?**
VIEHAUSER: 2018 was another highly successful year for us. I'd like to single out three indicators that demonstrate how well we fulfilled our traditional role as a state bank with strong regional roots. Our EUR 1.4bn* in new lending meant that the Bank once again acted as a driver of economic growth in its core market, and we actually lent more than in 2017. Profit for 2018 was well above target, and exceeded the strong multi-year average. Some of our strategic units exceeded their targets by wide margins, but we never forgot that adherence to our low-risk business model is central to everything we do.

Finally, we also did well on the international capital markets. We succeeded in placing two benchmark bond issues, and refinanced our operations at highly favourable terms. This demonstrates the Bank's excellent reputation as an issuer.

#3

**Despite its low-risk profile, the HYPO NOE Group has a Common Equity Tier 1 (CET1) ratio of 21%. Why do you need such high capitalisation?**
BIRKNER: Firstly, I'd like to say how proud I am that we managed to completely absorb the effect of first-time adoption of IFRS 9 in 2018, and actually increase our Common Equity Tier 1 capital ratio to 21%. This was quite a feat, and underlines how strict our risk policies are, as well as our owner's readiness to leave most of the profits we make in the Bank. Today, our capital base is stronger than ever, and we are one of the best capitalised banks in the country. We think this is a good thing, and important, because we want growth and compliance with future regulatory »

* Volume of contractually agreed new business (incl. prolongations)

**Management Board Member Finance, Risk & Operations Udo Birkner is proud of the fact that HYPO NOE Landesbank is one of Austria's best capitalised banks.**

»

requirements to depend on our own efforts, not a capital increase. It will give us the flexibility we need going forward.

#4

**What challenges is digitalisation bringing?**
VIEHAUSER: Firstly, digitalisation has brought significant changes in customer behaviour. Today's customers want to be able to carry out their banking transactions whenever they see fit, regardless of the day of the week or the time of day. At the same time we are convinced that personal contact will still be needed for life decisions like mortgage borrowing. With this in mind, we are working hard to expand our online and mobile services, but are also giving our relationship managers sufficient time to offer quality advice. The second major area that is affected is our processes – the inner workings of the Bank if you will. We are working on automating highly standardised services. At the end of the day, all these efforts should be apparent to our customers in the form of quick and simple solutions that create added value.

#5

**How is your Group-wide "Zukunftsfit 2020" efficiency programme going?**
BIRKNER: "Zukunftsfit 2020" is right on track. This is a three-phase programme. The first stage, which has already largely been completed, involves shaking out our organisational structures. The second and third stages concern optimising processes and our business model. We have also succeeded in implementing some of the measures included in these. For example, we recently strategically repositioned the management of investments in our real estate subsidiaries, and one subsidiary was reintegrated into the core bank. These moves are designed to have a positive impact on Group profitability. A look at our administrative expenses over time shows that the action taken is working. Following a sharp fall of over 10% in 2017, we kept up the momentum in 2018, and administrative expenses declined by a further 2.6%. Neither does our medium-term budgeting allow for any increases – which is testimony to our tight cost discipline.

#6

**In December 2018 HYPO NOE Landesbank launched the "Fokus 25" process. What is this aimed at?**
BIRKNER: Over the last few months, we have been working hard to give ourselves a new, future-capable structure, and we want to go live with this now. This has led us to set up "Fokus 25" – a broad-based organisational development process that involves members of both the management and the workforce, as well as the works council. Together, we want to redefine the Bank's focus, and in particular its mission, strategy and values, and consider how we can strengthen our teamwork. There will be many different settings in which we will invite our

"We want each and every employee to know who we are, where we are going and how we mean to get there."

**Udo Birkner**

people to make an active contribution. In 2020, we will undertake the first evaluation of the effectiveness of this initiative, using a range of methods including 360-degree feedback. When it comes down to it we are looking to develop a common "DNA". We want each and every employee to know who we are, where we are going and how we mean to get there.

#7

**How are you dealing with today's unprecedentedly low interest rates, and how do you see future events unfolding in this respect?**
VIEHAUSER: Following the phase-out of the ECB asset purchase programme, we anticipate a slight increase in interest rates, but not a true turning point, at least in the short term. Instead, we expect a gradual adjustment. We have adapted to persistently low interest rates both by enhancing efficiency and taking steps to diversify our income sources. Among other things, we are working to grow our fee and commission income, so as to take some of the pressure off interest income. For instance, in the medium term the consumer credit partnership with TeamBank that we entered into in 2018 should make a significant contribution to sustainably expanding our service business.

"Our EUR 1.4bn in new lending means that we are again acting as a driver of our state's economy."

**Wolfgang Viehauser**

**Management Board Member Markets and Spokesman Wolfgang Viehauser does not expect a true turning point in interest rates in the near term.**

#8

**How did your core Lower Austrian and Viennese market play out in 2018?**
VIEHAUSER: There were plenty of exciting developments once again. In general, the Lower Austria/Vienna regional economy is one of the country's powerhouses. And a market's attractiveness always has a lot to do with how bright a future it has. Lower Austria and Vienna are among the frontrunners in that respect because they have the fastest forecast population growth. Construction activity, and particularly housing association building, once again stood out in 2018. There is still very strong demand for affordable housing. For some time now, we have been responding by expanding our Housing Development unit. Thanks to our focus on mortgage finance, we are also the first port of call for tenants when they are interested in purchasing their apartments later on.

#9

**What are the strategic thrusts for the future?**
BIRKNER: Our priorities for the future are clearly defined. We are planning further increases in efficiency, as well as improvements in asset quality. We took a major step as regards the latter, with a marked reduction in the already very low NPL ratio to 1.4% at the end of 2018. We will also be looking to maintain our strong capital base. The patience of our sole owner, the State of Lower Austria, is key to the sustainability of our strategy. It will enable us to remain a stable and reliable partner.

**A low-risk business model and the sole ownership of the State of Lower Austria mean that Landesbank stands on strong foundations.**

# Risk averse and well capitalised – a safe haven since 1888

**A RELIABLE PARTNER.** HYPO NOE Landesbank is one of the few institutions of its kind with a business model based on a traditional mortgage bank. And this has brought it success – it is among the Austrian banks with the lowest risk profiles and the strongest capitalisation, and makes solid profits.

The figures speak for themselves: Austria's oldest state bank recorded a sharp reduction in its NPL ratio to 1.4% as at 31 December 2018. A look at the RWA of EUR 2.7bn and their modest EUR 14.1bn share of total assets reveals the low risk profile of the Lower Austrian state bank. The high CET1 ratio of 21% provides assurance that HYPO NOE Landesbank will meet all future regulatory requirements, and will be able to exploit future growth opportunities without sacrificing its financial strength. The capital markets have long seen the Bank as a safe address, and the widespread investor interest is a tribute to its clear business profile.

**Equipped for the future.** In the course of its 130-year history, HYPO NOE Landesbank has evolved from a pure mortgage bank into a universal bank. The "Zukunftsfit 2020" efficiency programme is fine tuning the Group's business model, and streamlining its structures and processes (see page 13), whilst putting a digitalisation strategy in place to arm it for the future. However, the mainstays of its business strategy are unchanged: a low-risk business model based on the public sector and real estate customers, and the backing of a dependable sole owner in the shape of the State of Lower Austria.

**Highly diversified refinancing strategy.** To remain well prepared for future challenges, HYPO NOE Landesbank keeps a particularly close watch on its asset quality, capitalisation and profitability. HYPO NOE Landesbank has long had a presence on the bond market, through its benchmark issues. At the same time, it takes care to keep diversifying its funding sources by growing customer deposits. ■

### FACTS AND FIGURES ON REFINANCING AT HYPO NOE LANDESBANK

- Annual capital market funding needs of about EUR 1bn
- One of Austria's largest covered bond issuers
- Benchmark bond issues – secured and unsecured
- Consistently solid liquidity position – even after the expiry of the historic state government guarantees

### INFORMATION

If you have any questions, you can reach the Investor Relations team at **investorrelations@hyponoe.at**. Keep up to date by subscribing to the investor relations newsletter at **www.hyponoe.at/en/ir.**

# Heading for a more efficient future

**GROUP-WIDE PROGRAMME.** Lean structures and processes and an optimised business model will significantly boost efficiency in the Group in the coming years. To achieve this, the HYPO NOE Group started an internal programme in 2016.

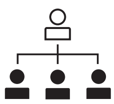

In 2016, the HYPO NOE Group launched an initiative aimed at boosting efficiency, designed to equip the Group to handle both current and future challenges. "The aim of the 'Zukunftsfit 2020' programme is to ensure the Bank is already in a position to meet future challenges," explains Management Board Member Finance, Risk & Operations Udo Birkner. In three phases spread across over five years, the Group is optimising its business model and streamlining its structures and processes. This has led to a significant fall in administrative expenses – from EUR 128.9m at the start of 2016 to EUR 112.8m in 2018, a drop of more than 12%. Staff reductions have largely been achieved by means of retraining and normal turnover.

> "The aim of the 'Zukunftsfit 2020' programme is to ensure the Bank is already in a position to meet future challenges."

**Udo Birkner, Management Board Member Finance, Risk & Operations**

## Efficiency programme

**PHASE 1: STRUCTURAL REALIGNMENTS**



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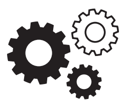
**PHASE 2: CONTINUOUS PROCESS OPTIMISATION**



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**PHASE 3: BUSINESS MODEL OPTIMISATION**

**Milestones**

Phase 1:
- Reintegration of the retail and residential construction businesses into the core bank
- Merger of front office units
- Streamlining of Management Board

Phase 2:
- Introduction of e-billing system
- Evaluation of applicability of software robotics in the Public Loan Management and Credit Services departments

Phase 3:
- Integration of HYPO NOE Valuation & Advisory GmbH into banking operations
- Restructuring of HYPO NOE Immobilien Beteiligungsholding GmbH

# "Gear up for digitalisation today and you'll be ahead tomorrow."

**STRATEGY.** An interview with Alexander Schaffer, Head of Organisation, IT & Operations, on the Group's digital strategy and the role of the new Digital Office.

**Alexander Schaffer, Head of Organisation, Operations & IT**

**How would you sum up the HYPO NOE Group's digitalisation strategy?**
ALEXANDER SCHAFFER: For us, there are two basic thrusts to digitalisation. Our Management Board Member Finance, Risk & Operations expects digitalisation to deliver simplified processes which in turn boost efficiency. For the Management Board Member Markets, the focus is on a modern customer experience, and above all on customer benefits. When a customer receives an offer that generates real benefits, quickly and conveniently, they are prepared to pay for it. If we can keep production costs low, then we make a profit too.

**What specific steps are you taking to achieve these goals?**
In September 2018 we set up the new Digital Office with staff from front office functions, Organisation, Operations & IT, and HR. The Digital Office's task is to help our people understand how we see digitalisation: as an opportunity to save time and money through simplified processes, and to appeal to new customers. Implementation will only work if we make full use of the Company's potential. For us, digitalisation is part of organisational development – and above all that means working on our corporate culture.

**Can you give an example of such a simplified process?**
Numerous documents are needed for a loan application – payslips, statements, confirmations and the like. These documents go to many different parts of the organisation – they are printed and scanned, forwarded by a sales team member to the risk manager, or to the back office functions that process the application. But in the end we only need the verified information, and not the documents themselves. In the long term, these will be recorded just once and processed more effectively, so that they can be accessed quickly in order to make the necessary decisions. We are also thinking about links to public authorities in this regard. The important thing is that information processing is tamper-resistant and secure in terms of data protection.

**Digitalisation often goes hand in hand with job reductions. Is that a justified concern in this case?**
It will be a transformation process. There will be fewer people putting data from forms or other sources into the system. But these will be replaced by new jobs that will require different skills, with a focus on customer benefits and profit.

**Does digitalisation represent a particular challenge for banks?**
Yes, absolutely. Other sectors, such as the automotive industry, have shown us how standardisation and automation work. Insurance companies are also significantly more digitalised and innovative than banks. Access to technology has changed radically, and competition is increasing. Companies that adapt today will be ahead tomorrow.

**What is your appraisal of fintechs – start-ups that often steal a march on banks with innovative technology?**
Of course, really good fintechs can be competitors, and much more so for purely digital banks. For us, the new solutions that are popping up represent an opportunity to offer certain services that are too expensive for us in partnership with fintechs and still maintain customer loyalty.

The foyer of the 115sqm branch catches the eye with its warm colours and natural materials.

# A space for life decisions

**NEW ARCHITECTURAL CONCEPT.** HYPO NOE Landesbank is redesigning its advisory services – and branch makeovers are part of the process. First in line was the Stockerau branch.

While some start-ups and banks are offering pure online banking, HYPO NOE Landesbank is pursuing a different strategy: the Bank is expanding its range of digital services (see page 16), and at the same time adapting its advisory services. "At the moment we are working on new, digital solutions that will reduce the administrative workload, for example with regard to housing construction loans. This should give customer advisors more time for areas such as finance for people building their own homes, or retirement saving," says Head of Organisation, IT & Operations Alexander Schaffer. The new architectural concept for the Bank's branches creates attractive spaces for personal, forward-looking meetings with customers, and has initially been implemented at the Stockerau branch. With this design concept, HYPO NOE Landesbank wants to move away from the sometimes cold atmosphere in many bank branches. ■

"People often just need a smartphone to check their balance. But when they have to make life decisions, they want detailed advice. The aim of the new branch design is to go the extra mile in satisfying customer needs."

**Wolfgang Viehauser, Management Board Member Markets, Spokesman**

## THREE QUESTIONS FOR… architect Christian Mang

**How did you approach the design for the branch in Stockerau?**
We took our inspiration from the tourism sector, which creates feel-good spaces that help to attract guests. The target group we had in mind was people who have established careers and appreciate quality. We chose warm, earthy colours and natural materials. We decided the surfaces shouldn't be too cold or too warm. It was also important for us to make a connection with the location. Since Stockerau is in the Weinviertel region, we selected objects by artist Fritz Gall related to the theme of wine.

**How is the branch laid out?**
The foyer contains self-service machines, and the rest of the 40 square-metre entrance area is set up as a cosy waiting lounge. Behind this there is a team office and two meeting rooms with attractive wooden tables and indirect lighting – creating a great atmosphere for making important financial decisions in a relaxed setting. Now, the Stockerau branch does not have much in common with a regular bank branch.

**What was the biggest challenge?**
Selecting the right materials and then finding suitable suppliers. For example, the concrete blocks for the stone-faced wall, and the old pine and spruce wood. That was something very special and exciting.

# Banking at your fingertips

**MOBILE STATE-OF-THE-ART.** HYPO NOE Landesbank combines personal advice with a range of smart digital solutions for private and business customers

In the digital age, customers are free to decide when, where and how they connect with their bank. When it comes to complex questions, personal contact is just as important as before. But thanks to smartphones, simple transactions are increasingly being carried out on the move. HYPO NOE Landesbank's range of digital apps and services reflect this trend.

**ZOIN: simple money transactions from smartphone to smartphone**
Transfer your share of the cost for mum's birthday present to your sister, or give your godchild the money for the new video game they want to buy: the ZOIN payment function allows users of the HYPO NOE PLUS App to transfer money from one smartphone to another – quickly and without an IBAN. Users simply select the contact on their smartphone or enter a mobile telephone number. For amounts over EUR 25, a PIN (chosen by the user) must also be entered. The only requirement for making a transfer is that the recipient is also registered on ZOIN. Transfers are limited to EUR 400 per day and EUR 1,000 per week.

A private matter: ZOIN enables cash transfers from smartphone to smartphone

**HYPO NOE TAN APP: sign off transactions easily and securely.** HYPO NOE Landesbank offers users of its Mobile Banking App an alternative to the mobile TAN. The appTAN signing process can be easily activated via internet banking or on iOS and Android smartphones. This makes online banking transactions simpler, more flexible and more secure.

**HYPO NOE MOBILE BANKING APP: bank transactions on your mobile phone.** Quickly check your account balance on the move, or make a transfer when you are on the train: the HYPO NOE Mobile Banking App for smartphones puts banking at your fingertips. It is available free of charge for iOS and Android. Users initially log in with their online banking access details, and thereafter with a shortPIN or fingerprint - quickly and conveniently. The app's integrated Personal Finance Manager provides an overview of incoming and outgoing payments.

**THE HYPO NOE ELECTRONIC BANKING PLATFORM: the bank in your office.** Bank opening times are a thing of the past: HYPO NOE's free Home Banking Platform (HBP) lets companies manage payments centrally, and take care of their cash management operations from their own office. Businesspeople can access all of their accounts in Austria using the e-banking service. HBP also offers a network structure to cover various sites and offices. Data can be stored offline in a local database. And the free Electronic Banking Hotline is there to help if something goes wrong.


**Eco-friendly: HYPO NOE Landesbank uses electric vehicles.**

# Responsible operations, responsible funding

**CORPORATE SOCIAL RESPONSIBILITY.** An anti-corruption programme, strict sustainability criteria for lending, workplace health promotion and an electric vehicle policy: HYPO NOE Landesbank has implemented a range of measures to ensure it meets its responsibilities to society, the environment, and its investors and employees.

Anyone who steps into one of the offices at HYPO NOE Landesbank's St. Pölten headquarters and thinks they have suddenly walked into a gym might not necessarily be far off the mark. Several times a year, a group of staff gather in one of the rooms to practise relaxation exercises under the expert instruction of a yoga teacher. The course is just one of the many sports and fitness programmes available to HYPO NOE Landesbank employees as part of the Group's workplace health promotion efforts. Staff of the state-owned bank also meet to run together, play football and golf, and go skiing.

**Burnout prevention.** The HYPO NOE Group works with employee service Consentive to counter the risk of stress and overwork. Consentive provides free, anonymous advice and support to Bank employees facing professional or private difficulties. As a responsible employer, HYPO NOE Landesbank also places a strong emphasis on personal development and training. In 2018, HYPO NOE Group employees completed a total of 2,646 days of training. »

**HYPO NOE REGIONAL SPARBUCH**

The HYPO NOE Regional Sparbuch savings account offers customers security and attractive interest rates. But the product also creates sustainable added value for the region, as HYPO NOE Landesbank uses deposits to finance housing construction projects in Vienna and Lower Austria. At the end of 2018, the total volume of financing amounted to more than EUR 84m.

## DID YOU KNOW…

**…that HYPO NOE Landesbank introduced a comprehensive sustainability programme as early as 2013?**
Six years ago, HYPO NOE Landesbank initiated a sustainability drive that was subsequently rolled out to the whole Group. The Group has published an annual sustainability report since 2014. This report is prepared in accordance with the Global Reporting Initiative (GRI) guidelines

**…that HYPO NOE Landesbank uses 100% renewable electricity?**
The Group's headquarters in St. Pölten, and all of HYPO NOE Landesbank's offices and branches, are supplied exclusively with renewable electricity. The Bank also generates its own solar power from photovoltaics.

**…that all branches have been wheelchair-accessible since 2017?**
HYPO NOE Landesbank is committed to providing safe and secure access to services for all customers, and to prevent discrimination against people with disabilities. To ensure this, the bank drew up an action plan for its branches. All branches (there are currently 27) have been wheelchair-accessible since the end of 2017.

**…that HYPO NOE Landesbank uses climate-friendly transportation?**
HYPO NOE Landesbank's vehicle fleet includes four electric cars. The Bank aims to increase the proportion of e-vehicles in its fleet in the coming years. The car park at the Group's headquarters currently has six free fast-charging points, one of which is available to customers and event guests.

**…that HYPO NOE Landesbank has been named one of Austria's flagship companies?**
Independent cross-sector business network Leitbetriebe Austria uses strict criteria to recognise Austrian companies that focus on sustainable success rather than short-term profits. HYPO NOE Landesbank is one of 70 Lower Austrian businesses that have been awarded its certificate.

**HYPO NOE Landesbank utilises funds deposited by its customers to finance sustainable projects, such as non-profit housing.**

»

**Anti-corruption an integral part of training.** The HYPO NOE Group has clear internal anti-corruption guidelines that form part of the Group's compliance rules. Every new HYPO NOE employee is obliged to attend an online compliance and anti-money-laundering training course within four weeks of joining the Group, as well as annual refresher courses.

**Sustainable business practices: a key pillar of our operations.** A strong sense of responsibility is fundamental to our interactions with investors and customers, as well as with society and the environment: doing business sustainably has been central to our business model since 1888. "Banks can play a significant role in social and environmental development," says Management Board Member Finance, Risk & Operations Udo Birkner. "To us, sustainable finance means making a contribution to regional value creation, prioritising projects that add value to society, and being a responsible employer."

**Ethical exclusion criteria for finance.** HYPO NOE Landesbank set out clear ethics guidelines and business principles for financing and investment many years ago. These include positive and negative criteria. Positive criteria help the Bank to promote activities that it believes generate the greatest possible benefit for society. In this regard, the Bank has been committed to supporting

# Star pupil in sustainability

**COMPREHENSIVE RATINGS.** In addition to its issuer and covered bond ratings, the bank for Lower Austria carries out evaluations that take environmental, social and economic factors into consideration. These efforts are reflected in excellent sustainability ratings.

ISS-oekom awarded HYPO NOE Landesbank a C rating with Prime status in 2018. This attests to the Bank's outstanding engagement with environmental and social issues.

Sustainability agency rfu renewed HYPO NOE Landesbank's rfu qualified status with a ba rating in 2018. Only top businesses are granted such status and included by rfu in its investment universes.

The Bank's ratings from imug are also testament to the success of its sustainability strategy. imug categorises HYPO NOE Landesbank as an issuer in the savings bank sector, which includes provincial banks and mortgage institutions. The Bank ranks third among its 32 peers in this group, and 19th in the complete ranking of 186 institutions.

non-profit housing for years, and in 2018 alone provided EUR 260m of funding for this segment (see page 20). Sustainable energy and environmental protection projects are another focus. Finance for nuclear power, arms deals and countries engaged in armed conflict is excluded. The Group's ethical guidelines also form part of the internal treasury policy, allowing exclusion criteria to be even more closely aligned with environmental and social risks in the future.

**Reducing the Group's environmental footprint.** As the bank for the state of Lower Austria and one of Austria's flagship businesses, the HYPO NOE Group not only believes it has an obligation to finance climate protection projects, but also wants to take action itself. Therefore, the Group presents its environmental footprint transparently and puts targeted measures in place to reduce it. For instance, state-of-the-art energy efficiency methods were applied in the design of the Group's head office, which has its own photovoltaic array generating green electricity. In 2018, the array produced over 36,000 kilowatt hours of power. And HYPO NOE Landesbank is also building a vehicle fleet for the future by gradually switching to low-emission vehicles.

"To us, sustainable finance means making a contribution to regional value creation, prioritising projects that add value to society, and being a responsible employer."

**Udo Birkner, Management Board Member Finance, Risk & Operations**

# EUR 260m for affordable living

**HOUSING ASSOCIATIONS.** Last year alone, HYPO NOE Landesbank provided EUR 260M in funding for sustainable housing projects – out of conviction, and because the market in Vienna and Lower Austria is booming.

**Michael Swoboda, Head of Housing Development**

Lower Austria holds the top spot when it comes to the increase in non-profit housing development: between 2010 and 2017, the number of newly built subsidised apartments in the state rose from 2,500 to 4,200. "Many people want to move away from Vienna to the outer suburbs for cost reasons. And the demand for affordable living space in towns like Wiener Neustadt, Krems and St. Pölten remains strong," comments Michael Swoboda, head of Housing Development at HYPO NOE Landesbank.

**Thinking outside the box.** HYPO NOE Landesbank supplied EUR 260M in funding for non-profit housing development projects in 2018 alone, with Lower Austria and Vienna accounting for the lion's share of the total. The Bank has also recently extended its exposure to Styria and neighbouring Upper Austria, where a vibrant economy has also buoyed the residential property market.

**Innovation hub.** "Housing is a mainstay for a regional bank – after all, everyone needs a place to live. And strict criteria mean that the not-for-profit sector creates high-quality, energy-efficient, affordable homes, which in turn makes for social equality. We'd like to do our bit for that," Swoboda emphasises. Housing association building also frequently leads the way in innovative, sustainable solutions, such as using straw for insulation, he notes.

As a financier, HYPO NOE Landesbank has reaped the benefits of its solid, long-term partnerships with non-profit housing associations. Swoboda also sees business opportunities in the private customer segment: "In many cases, residents of rental apartments owned by housing associations can buy the property after ten years."

Although subsidised housing construction is still growing – albeit modestly – there has recently been criticism from some quarters: Michael Neubauer of NOE Immobilien Development GmbH pointed out that many local authorities do not have the necessary infrastructure, such as nursery schools, to cope with the influx from the large conurbations. And Karl Wurm of the GBV (Austrian Federation of Limited-Profit Housing Associations) warned that the annual nationwide shortfall of 7,000 affordable apartments is set to grow. He attributed this to higher construction and land costs, and the expected rise in interest rates.

The City of Vienna recently responded to higher land prices with new legislation, which will require two-thirds of newly zoned building land to be made available for subsidised housing. Swoboda believes that assuring the continued construction of affordable, quality housing will demand a wide-ranging rethink. "We will have to reconsider the question of how tall new properties can be, for example. This is a very contentious issue in urban development at the moment."

The new facility in the centre of Krems comprises 89 apartments – from single-person properties to two-storey maisonettes.

# Multigenerational housing

**IN THE HEART OF KREMS.** A new non-profit housing association development is currently taking shape on Kasernstrasse in Krems. It will soon be home to people of various generations, including elderly residents who require day-to-day assistance.

Construction machinery is still in operation, but the first residents are due to move into the complex in spring 2019. Gemeinnützige Donau-Ennstaler Siedlungs-Aktiengesellschaft (GEDESAG) is currently building 89 housing units and an office, with a combined gross area of 4,898 square metres (sqm).

**Seniors at the heart of things.** "For me, the most exciting aspect of this project is that senior citizens will be living in the centre of Krems, not somewhere out in the sticks," comments Michael Swoboda, who heads HYPO NOE Landesbank's Housing Development Department. A total of 25 apartments are earmarked for assisted living. The elderly tenants live on their own, but employees of the Hilfswerk Niederösterreich charity are on hand if they need help with shopping or travelling to doctor's appointments, or would like to receive food from the meals on wheels service.

The remaining 64 apartments will be sold. The properties range from 53sqm single-person apartments to family-sized four-bedroom flats and two-storey maisonettes.

The development costs totalled EUR 16m, with HYPO NOE Landesbank contributing EUR 7m by way of a mortgage loan. The State of Lower Austria extended a housing construction loan of EUR 8m, and the residents' capital will cover the remainder of the building costs.

**Bright and leafy.** Some properties have their own garden or balcony, there is also a rooftop terrace and residents will have access to public green spaces. Architect Christian Mang, who also designed the new-look HYPO NOE Landesbank branch (see page 15), won the contract for the project with his clearly structured floor plans, light-filled spaces and covered pergolas. Lifts ensure barrier-free access to all apartments.

"The budgets for non-profit housing construction are always tight. Nevertheless, I tried to design the kind of development I would like to live in myself."

**Christian Mang, architect**

# Modern maternity centre in Lower Austria's "birthing capital"

**HIGH-TECH MEDICINE.** It is one of the largest construction projects that Lower Austria has seen in recent years: the modernisation of both sites of the Baden-Mödling state hospital, which were inaugurated in Mödling in April 2018.

**A brand new clinic with three pavilions was built on the site of Mödling Hospital.**

A brand new clinic with a gross floor area of just under 51,000sqm, three pavilions, 338 beds and five modern operating theatres has sprung up in Mödling over the past few years. The construction costs were around EUR 194m. At the opening ceremony the town's mayor, Hans Stefan Hintner, expressed his relief that "the years of tinkering with the old building, the constant alterations and extensions, have now been consigned to the past."

Now, Lower Austria's "birthing capital" – with over 2,200 deliveries per year – is home to a state-of-the-art clinic for mothers and children, which will treat expectant mothers, newborns and children up to the age of 18. The hospital will also specialise in neurology and orthopaedics.

**High-tech and strict hygiene standards.** "From a construction and operational viewpoint, hospitals are the most complex facilities to build and run," says Christian Koch, who heads up the Public Finance Department at HYPO NOE Landesbank. This is mainly due to the need for high-tech equipment and high hygiene standards. Working on behalf of the State of Lower Austria, HYPO NOE Leasing GmbH looked after the lease financing for the hospital, which is located to the south of Vienna, and took on the entire commercial management of the project – from the commissioning of architects and construction firms through to payment processing and managing bank guarantees.

The Baden site, with 443 beds, six operating theatres and a gross floor area of 64,000sqm, opened two years earlier, in September 2016. Built at a cost of EUR 190m, the hospital focuses on acute and trauma surgery. The HYPO NOE Group also provided the lease financing for this facility.

> "From a construction and operational viewpoint, hospitals are the most complex facilities to build and run."
>
> **Christian Koch, Head of Department, Public Finance**

# An equal partner to the public sector

**RELATIONSHIP BANKING.** The public sector is facing major challenges when it comes to providing infrastructure for citizens and businesses. With a view to forging long-term partnerships, HYPO NOE Landesbank supports local authorities during this process, offering them tailor-made solutions. This requires constant training and development for our relationship managers.

COMMENTS BY CHRISTIAN KOCH, HEAD OF THE PUBLIC FINANCE DEPARTMENT

**Christian Koch, Head of the Public Finance Department**

The problem facing local authorities and federal states that want to package themselves as attractive locations is providing infrastructure for residents and companies. The necessary funding from the public sector is subject to a strict regulatory framework. The Maastricht rules, under the 2012 stability pact agreed by the federal government, state governments and municipalities along with the budget contributions of the various territorial authorities, and high social transfer payments play a key role.

In addition, an amended "Voranschlags- und Rechnungsabschlussverordnung" (Budgeting and Accounts Order) will come into effect on 1 January 2020. This means that local authorities will switch from single-entry public sector accounting to a system of budgeted profit, financing and expenses, which will result in additional organisational and staff costs. HYPO NOE Landesbank is taking appropriate steps in preparation for this significant change in the accounting regulations.

"HYPO NOE Landesbank sees itself not just as a lender, but also as a partner and adviser to the public sector."

**Christian Koch**

**All-inclusive models for public sector construction.** As a leader in financing solutions for Austria's public sector, HYPO NOE Landesbank not only offers conventional funding models, but also a bespoke all-inclusive solution: local authorities have a single build-finance-operate partner. This model looks at properties from a full-life-cycle perspective. The construction costs and completion date are guaranteed, as are the operating costs for a specified period. Great care is taken to involve local business. The key benefit of this approach is that construction cost overruns can be avoided, and unforeseen operating expenses do not put exceptional pressure on budgets.

**Back to school with local authority employees.** HYPO NOE Landesbank sees itself not just as a lender, but also as the kind of partner and adviser to the public sector implied by true "relationship banking". This means that the Bank must have insights into how local authorities operate and what their needs are. For this reason, we prioritise continuing professional training and development for our relationship managers. They attend courses in public administration at the Danube University Krems, as well as courses offered by the Lower Austria Community Management Academy. HYPO NOE Landesbank also stages specialist events for local authority employees in tandem with the Academy.

# From small firms to large groups

**GAINING GROUND. The Corporate Customers business expanded rapidly in 2018, and new business increased. Two departments were merged and staff split into three specialised teams.**

**Markus Pieringer, Division Head, Corporate Customers**

What do Lower Austrian entrepreneurs want to find out at HYPO NOE Landesbank's information events? "Lots of things that you wouldn't expect at first glance," says Markus Pieringer, Head of the Corporate Customers business segment. For instance, some want to know about the outlook for the yen. As Pieringer points out: "Lower Austrian and Viennese businesses aren't just the biggest in Austria, they are highly export-oriented and don't focus exclusively on Europe."

This is why HYPO NOE Landesbank is looking to grow its export finance business. By means of Kontrollbank credit lines (KRRs), the Bank can extend operating loans at competitive interest rates for companies to finance their export business. Working on behalf of the Austrian government, Oesterreichische Kontrollbank assumes liability for up to 80% of the associated risk.

"Lower Austrian and Viennese businesses aren't just the biggest in Austria, they are also highly export-oriented."

**Markus Pieringer**

**On track for growth thanks to new structure.** Corporate Customers' total revenue also increased during the reporting period. "In 2018 alone, we generated new business worth more than a quarter of a billion euros," Pieringer explains proudly. The Retail and Corporate Customers segment currently accounts for around 13% of the HYPO NOE Group's total assets, or EUR 1.8bn. HYPO NOE Landesbank supports corporate customers of various sizes operating in a range of different industries. Around two-thirds of them are based in the Group's core market of Lower Austria and Vienna.

The driving force behind the growth in the business was the merger of the Large Corporates and SME Departments. "The reorganisation enabled us boost efficiency, and we didn't have to lay off a single employee," Pieringer says. The 25-strong team is split into three departments: Structuring and Products (including specific business subsidies such as European Recovery Program loans and export financing), Large Corporates and Corporate Customers Austria.

Just like his colleagues from other departments in the Group, Pieringer hopes that digitalisation will have a positive impact: "Next year we will plough a lot of investment into further improvements to our corporate electronic banking system."

HYPO NOE Landesbank is HAZET Bau's finance partner on the Karrée Korneuburg project.

# Striking out on new paths together

**HAZET BAU.** HYPO NOE Landesbank has been working closely with the Vienna-based construction company for many years.

Viennese construction company HAZET Bau has been developing and renovating properties for private and public sector clients for more than 90 years. In the Austrian capital, its project portfolio includes landmark buildings such as Palais Coburg and the Generali Tower.

In the Lower Austrian town of Korneuburg, HAZET Bau took less than two years to complete the Karrée Korneuburg development, which comprises three residential towers with 71 apartments, as well as office and retail space. The company has received numerous awards in recognition of its professionalism, and is a two-time winner of the Vienna construction guild's Urban Renewal Award.

The company was set up in 1927 as Hoch und Tiefbau Ing. Hans Zehethofer. It was re-established in 2015 under the current majority shareholder Bauservice Beteiligungen Ges.m.b.H. The company, along with its modern construction plant, has been located in Vienna's 23rd district since 2017.

**In-depth collaboration.** Markus Pieringer, Head of the Corporate Customers Division at HYPO NOE Landesbank, on the relationship with HAZET Bau: "We collaborate closely, and the personal relationships are very strong. Our Bank supported the company's re-establishment in 2015, and we also act as the finance partner for construction projects like Karrée Korneuburg." ■

HAZET Bau's headquarters in Vienna's Liesing district is also home to a modern vehicle fleet.

# Opportunities for young artists and talented athletes

**DEDICATED TO SUPPORTING SOCIETY, SPORTS AND THE ARTS.** When it comes to sponsorship, HYPO NOE Landesbank meets its social responsibilities by supporting a wide range of activities. As with typical business relationships, the emphasis is on long-term, local partnerships that have a lasting impact.

## artconnection: spotlight on architecture

High above the rooftops of St. Pölten, the Panoramasaal hall at HYPO NOE Landesbank offers stunning views. But last September there was much more to see: an exhibition by artist Simona Reisch (born in 1985) held as part of HYPO NOE's artconnection programme drew a large audience. The Viennese artist's "architectural archive" of three-dimensional collages and sculptures caught visitors' imaginations. Reisch's work skilfully combines cut-outs from photographs of buildings to create a new, utopian architecture that is freed from the constraints of structural engineering and the townscape. "Young artists rarely have the opportunity to display a broad spectrum of their work. Many pieces remain hidden, they get pushed out of sight," said a delighted Reisch, speaking about her big chance. HYPO NOE Landesbank plans to turn the spotlight on other young artists like Simona Reisch as part of its art sponsorship programme.

**Artist Simona Reisch is glad of the opportunity presented by artconnection.**

**Batoul Kollieh (pictured with Management Board member Wolfgang Viehauser) has been receiving support on the way to obtaining her school-leaving qualifications.**

## Lower Austrian START scholarship: paving the way for successful integration

START is a school scholarship programme designed to enable hard-working young people with migrant backgrounds to obtain their school-leaving qualifications. Besides financial support, the selected pupils also receive basic IT equipment, as well as access to a range of educational and advisory services. In 2018 HYPO NOE Landesbank hosted the presentation ceremony for the latest recipients of the scholarship. Like several other high-profile Lower Austrian companies, HYPO NOE Landesbank is doing its bit to support a female student as she works towards her school-leaving certificate.

## Caritas Lerncafé: giving young people a brighter future

Education is the key to opening up better prospects. And Caritas runs Lerncafés ("Learning Cafés") at various locations in order to give disadvantaged children and young people the assistance they need. The boys and girls who come to the cafés can get help with their homework and learning. In 2018 HYPO NOE Landesbank supported the Learning Café in Wiener Neustadt.

## Beach Volleyball World Tour: let's party in Baden

The eyes of the beach volleyball world were on Baden from 13–17 June. The town's debut on the World Tour circuit drew thousands of fans, who got their full money's worth – with selfies and autographs included – and really rocked the town's spa.

The FIVB World Tour is a series of international beach volleyball tournaments. Three home teams made it to the finals in 2018. Katharina Schützenhöfer and Lena Plesiutschnig took silver in the women's doubles. In an all-Austrian men's final, Clemens Doppler and Alexander Horst won gold with victory over Julian Hörl and Tobias Winter – the top stars and HYPO NOE Landesbank standard bearers living up to their role as tournament favourites. It was the crowning highlight of the event. HYPO NOE Landesbank is one of Lower Austria's biggest sports sponsors, and backs clubs and athletes in a variety of disciplines.


**Podium place: HYPO NOE Landesbank is one of Lower Austria's biggest sports sponsors.**

"Our sponsorship activities are designed to associate HYPO NOE Landesbank with top-class achievements – and at the same time strengthen our corporate culture."

**Petra Skala, Head of Marketing & Sponsorship**


**Sporting effort in aid of sick children**

## Schönbrunn Zoo Run: giving sick children a better life

This year, HYPO NOE Landesbank sponsored the Schönbrunn Zoo Run in Vienna for the first time. The proceeds from this unique event are divided equally between PH Austria, which runs an initiative focused on children with pulmonary hypertension and promotes research into the condition, and Schönbrunn Zoo. Pulmonary hypertension is an incurable disease of the lung arteries. The proceeds from the Zoo Run and the related donation from HYPO NOE Landesbank are intended to help improve the quality of life of the affected children and their families a little.

## Garten Tulln: unrivalled in Europe

The Lower Austrian Garden Show in Tulln grew out of the traditional flower parades held in the town, which go back to 1954. Europe's first and only eco-friendly garden exhibition boasts 65 display gardens and a host of other attractions. Across the entire site, gardeners adhere closely to the rules established by the State of Lower Austria's "Natur im Garten" initiative, which encourage the avoidance of pesticides, chemical and synthetic fertilisers, and peat.

Palais Niederösterreich provided the eye-catching backdrop for the 2018 HYPO Invest Club.

# Digitalisation is no substitute for customer affinity

**HYPO INVEST CLUB 2018.** Bags of experience and an eye on the future: in 2018, HYPO NOE Landesbank's 130th anniversary set the tone for the annual gala event for customers and partners.

In their opening address to the 250 or so guests who gathered at Palais Niederösterreich in Vienna, the Management Board members emphasised that banks have a long history, and also a future. They also underlined the importance of recognising customers' needs. In addition, online banking is the rule nowadays, so app-based payment services are essential.

"We should be aiming for humanistic digitalisation."

**Matthias Horx, future researcher**

**Trends and countertrends.** German future researcher Matthias Horx gave the audience food for thought and discussion.

"Among other things, future research is about getting to grips with mistakes," the founder of the Zukunftsinstitut emphasised. Every trend prompts countertrends; for instance, globalisation leaves people longing for home, Horx commented. In his view, the secret is understanding this recurring phenomenon.

**Value-added the key to success for "bank 4.0".** The researcher sees a similar development in the digitalisation process. Now people are starting to ask themselves "what problems social media and the like can cause. People only truly learn from mistakes, and culturally adapt certain technologies to their own needs." For "bank 4.0", he believes that "creating added value" is the key. Digitalisation makes sense if it generates benefits, empowers people and brings meaning to their lives. "We should be aiming for humanistic digitalisation," Horx argued.

**Close to customers – in person and digitally.** In the opinion of HYPO NOE Landesbank's Management Board, serving clients in Lower Austria and Vienna effectively over the next 130 years will require proximity to customers on both a personal and a digital level. Banking will look different in ten years' time; that was also the case a decade ago. Addressing customers effectively through its products and people – remains the Group's raison d'etre. ■

# Ötscher-bach

**LIKE THE GRAND CANYON, ONLY GREENER**

The Ötscherbach river and its canyons: admittedly not as deep or long as its American counterpart, but just as beautiful. Foaming waterfalls, breathtaking rock formations, romantic reflections on the water and narrow, winding paths captivate every fan of hiking. Bears are a rare sight in Lower Austria's largest nature reserve, but vintage train enthusiasts can take a ride on one: the elegant Ötscherbär ("Ötscher bear") dates back to 1910, and every Saturday during the summer it makes the trip from St. Pölten to the Ybbstal Alps.

# Group operational and financial review

# FOREWORD BY THE SUPERVISORY BOARD


2018 was a challenging, but ultimately highly successful year for the HYPO NOE Group and its employees. In an environment of unprecedentedly low interest rates, the Group posted profits that were significantly better than forecast and above the multi-year average. Key drivers of this strong performance were the energetic pursuit of initiatives aimed at reducing costs, strengthening the capital base and increasing the effectiveness of the Group's sales.

The Group followed through on the merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG, completed in 2017, by pressing ahead with a raft of reorganisation measures. The integration of the Group's entire banking operations into a single institution laid the groundwork for lasting increases in efficiency. The Group also reached other major milestones during the year just ended. Previously separate units were amalgamated and streamlined, and the membership of the Management Board was reduced from three to two.

Action to promote the continued development of a positive and proactive corporate culture, in the interests of employee motivation and customer orientation, is particularly important. The real estate services business was restructured, and it is now focused on the core Lower Austrian market. All these steps, which encompass process-related as well as structural improvements, are helping to reinforce the Bank's market position, competitiveness and capitalisation, as well as employment in its home region. Thanks to the robust capital resources accumulated in recent years, the HYPO NOE Group can concentrate on its traditional role as a regional lender and seize market opportunities without forfeiting its financial strength. The raising of the outlook on the solid A rating from Standard & Poor's to positive demonstrates the strong progress that the Bank has made.

In 2018 the Supervisory Board was involved in all decisions of fundamental importance, supervised the Management Board in accordance with legal requirements, and advised it on the running of the Group. Through its plenary and committee meetings, and reports from the Management Board, the Supervisory Board was able to obtain a timely and comprehensive picture of the relevant economic and financial developments at the HYPO NOE Group.

Thanks not least to the rigorous implementation of the Bank's chosen strategy, the Supervisory Board can report that the HYPO NOE Group recorded sound performance once again in 2018 and can build on strong and resilient foundations going forward. Due to its long-term perspective, the role of the State of Lower Austria as a stable and reliable sole owner is a mainstay of the Group's continued positive performance, while the state itself profits from the dependable dividend income and value growth that this brings.

Despite numerous changes in its structure and processes, the HYPO NOE Group has been highly successful. The outstanding commitment shown by its employees has been crucial to this – each and every one of them makes an important contribution. The Supervisory Board would like to express its gratitude to the entire workforce and the Management Board for their exemplary efforts in 2018.

**Günther Ofner**
Chairman

# ECONOMIC CLIMATE

## Global economic and financial market trends

The 2018 calendar year was heavily influenced by political issues. The trade dispute between the United States and China coloured the start of the year, although the US trade restrictions were also aimed at the country's NAFTA partners and the European Union. Business sentiment in Europe was dimmed by uncertainty about the manner of the United Kingdom's exit from the European Union. After two years of negotiations it is still unclear whether the outcome will be a hard or soft Brexit, or none at all. An additional trouble spot emerged in the eurozone in the shape of Italy, soon after the formation of a government there. The new coalition in Rome drew up a 2019 budget with a deficit of 2.4% – a big jump from the -0.8% target notified to Brussels by its predecessor. This prompted the European Union to open an official excessive deficit procedure against Italy. The confrontation between Brussels and Rome ultimately made itself felt in a steep rise in the risk premium on Italian government bonds. In the course of the year these developments contributed to a sharp drop in eurozone economic growth as compared to 2017. As the world economy was in excellent health when it entered 2018, the consequences of what are largely political conflicts have yet to unleash any recessionary trends.

Indeed, due to the tax cuts that kicked in at the start of the year the US economy experienced a further speed-up in growth, and it is expected to have expanded by almost 3% in 2018. Both private consumption and corporate investment were major contributors. At the same time the budget and trade deficits ballooned. The US economy was running at full employment even before the tax reduction, and joblessness fell to 3.7% – the lowest in almost 50 years. In line with this, average hourly earnings climbed by an annualised 2.8% in the third quarter. Consumer prices rose by 2.5% over the year – the most rapid rate since 2011. Up to October inflation was mainly driven by a marked upturn in commodity prices. However, even core inflation (with the volatile items in the shopping basket stripped out) hit 2.1%. The Federal Reserve reacted with further increases in interest rates totalling one percentage point and a continued drawdown of the holdings of securities on its balance sheet.

Besides the political strains, eurozone output was hit by negative one-off factors. These included adverse weather conditions at the start of the year, followed by strikes in Germany and France, and the imposition of tougher emission test requirements on the motor industry. Among the effects of the temporary cutback in car production was a slump in quarter-on-quarter output growth to 0.2% in the eurozone, and to negative growth of 0.2% in Germany, in the third quarter of 2018. Despite the slowdown in economic growth, employment continued to mount, trimming the unemployment rate in the eurozone to 8.1% by year-end 2018 – a level last seen at the end of 2008. In Europe, too, consumer prices were strongly influenced by crude oil price movements. Inflation hit an annual high of 2.2% in October. However, at about 1%, core inflation remained relatively low and at roughly the same level as in the preceding years.

At the start of the year the European Central Bank (ECB) scaled back its asset purchase programme from EUR 60bn to EUR 30bn per month, and it made a further reduction, from EUR 30bn to EUR 15bn, for the October to December period. On 13 December 2018 the ECB decided to halt the purchases. The current stock of securities will be kept constant for the time being by reinvesting them as they mature. The ECB gave no guidance as to possible future interest rate increases, other than its view, expressed in June, that rates would remain unchanged at least until the summer of 2019. Eurozone interest rate expectations up to the end of the year have been significantly tempered by the gloomier economic outlook at year-end and the decline in crude prices, as a result of which inflation expectations have likewise moderated.

## European bond market

Market interest rates reached their year's highs during the first quarter of 2018. For instance, under the influence of the hitherto favourable economic situation in the eurozone, and of a strong interest rate run-up in the United States, within the space of a few weeks the euro swap rate for a term of ten years advanced from 0.90% to 1.19% in February 2018. However, the economic climate then worsened. The ECB's decision in June to leave money market rates untouched until the summer of 2019 at the earliest dashed any lingering hopes of an increase in interest rates. Towards the end of the year European sovereigns were one of the best performing asset classes. This did not apply to Italian government bonds, though. As a result of the budget row with the European Union and poor economic data, the risk premium widened to a spread of as much as 330 basis points vis-à-vis ten-year German Bunds.

Corporate bond prices tumbled during the year, due to the predictable phase-out of the ECB's asset purchase programme, as well as the economic trend. As part of its quantitative easing policy the European Central Bank had been purchasing not only government but also corporate bonds for some time. In some cases this led to high price levels which clearly proved to be unsustainable in the aftermath of the termination of the asset purchases. Investors dumped their holdings regardless of the bonds' ratings. Investment grade, high yield and emerging market bonds were all hit by price falls in 2018, despite the fact that defaults remained very rare.

## European equity markets

Due to the increased uncertainties that emerged in the course of 2018 the European share indices ended the year well in the red. Political risks – notably the trade dispute between the USA and China, the faltering Brexit talks, and the tensions between the government in Rome and the European Union – weighed on investor sentiment in the equity markets even more than on the real economy. Coming in combination with growth worries, company results which, though essentially satisfactory, failed to live up to expectations meant that most indices ended 2018 at or near their lows for the year.

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

### AUSTRIA

The waning boom gradually settled into a pattern of steady 2.7% growth. This picture is confirmed by the EU Economic Sentiment Indicator, which shows a year-on-year decline from 119 to 110 for Austria. Nevertheless, the Austrian economy is still expanding considerably faster than the eurozone as a whole (2018: 2.1%). Austria's positive performance is likely to continue to be driven by individual consumption, which is benefiting from strong employment and wage growth. Industry also recorded robust growth in 2018, and this in turn provided a potent stimulus for gross fixed investment (up by 3.5%). Meanwhile export growth edged down to 4.2%, due to cooling economic growth in Austria's main market, Germany (the destination of 30% of the country's exports).

As would be expected, the strong economy impacted the labour market, giving a substantial lift to the number of full-time jobs and causing a decline of 1.1% in unemployment in two years, to 4.9% in 2018. Inflation doubled as compared to 2016, reaching 2.1%, due to higher energy prices, and is now within the target range.

Austrian companies made increasing capacity-related expansion investments in 2018. At the same time equipment investment rose by 4.1% year on year. The construction sector registered further growth, chiefly driven by favourable financing conditions and continued strong demand. Housing investment jumped by 6% in 2017, and is currently thought to have mounted by a further 3% in 2018. Civil engineering investment was boosted by a number of public infrastructure projects during the year.

Austria's budget deficit narrowed sharply as a result of the economic upturn, as well as current European monetary and interest rate policies. Higher tax revenue and comparatively low government interest expenditure brought a balanced overall budget earlier than anticipated, in 2018. The debt ratio, which peaked at 84.8% of gross domestic product (GDP) in 2015, is expected to come in significantly lower in 2018, at 74.8% (eurozone average: 86.9%). This marked reduction chiefly reflected disposals of the assets of state-owned banks. The housing price index has soared by 31.6 points since 2013. The main drivers behind this trend are demographic changes and the related substantial increase in the demand for accommodation, as well as the current low interest rate environment, which has enhanced the attractiveness of residential property as a form of investment. The indebtedness of Austrian households remains low in international terms.

### FEDERAL STATES

Growth accelerated in most of the Austrian federal states during the year just ended. The impetus from export demand, which mainly affected states with large industrial sectors – Upper Austria, Styria and Vorarlberg – strengthened significantly in 2018. Due to the economic upswing employment powered ahead by about 2.5%, with industry and construction making most of the running (2017: 1.9%). According to the latest available data, Lower Austria marked up growth of 3.0% in 2018 – a gain of 0.3 percentage points on 2017 – placing it in the forefront of the Austrian federal states.

The construction sector did particularly well in 2018. Upper Austria (11.6%), Vorarlberg (10.7%) and Lower Austria (9.5%) posted the most robust growth in the first half of 2018. Both building construction and civil engineering have been expanding rapidly.

Meanwhile public budgets have lately been benefiting from higher tax revenues, as shown by increased operating surpluses in eight of the nine states. The latest accounts show Lower Austria reporting the second-highest operating surplus after Vienna. Styria was the only federal state to run an operating deficit. There was an improvement in terms of the Maastricht targets as five of the nine states reported Maastricht surpluses. Lower Austria outperformed its Maastricht targets by a wide margin, and again generated the second-highest freie Finanzspitze (unappropriated current funding balance) of any state after Upper Austria. Vienna's negative freie Finanzspitze is due to an extraordinary foreign currency debt repayment of EUR 1.3bn. As a result of this, in 2017 Vienna's foreign currency debt slid from EUR 1.7bn to EUR 0.4bn, although at the same time its total financial liabilities climbed from EUR 5.4bn to EUR 6.4bn. In 2017 the aggregate financial liabilities of all the federal states grew by 4.6% to just under EUR 22.7bn. During the same year total state government guarantees dived by some 30% to EUR 25.2bn, due to expired bank guarantees. In 2018 the state of Vienna accounted for EUR 5.1bn of the remaining EUR 6.8bn in bank guarantees extended by state governments.

## Banking sector trends in the eurozone and CEE

The European banking sector has undergone a fundamental transformation in the decade since the outbreak of the financial crisis. The regulatory requirements that banks must meet have been considerably tightened, in order to buttress the sector's resilience in the face of crises. At the same time the regulatory measures taken have often added to the banks' internal costs — notably at the overall management control level. An important aspect of regulatory efforts has been the establishment of an EU banking union, which rests on three pillars: alongside the existing first pillar (the Single Supervisory Mechanism) and the second (the Single Resolution Mechanism), the European banking union is to be completed by the creation of a third — a common European deposit insurance system. The latter, to be based on a "European Deposit Insurance Scheme" (EDIS), remains highly controversial in a number of member states, and is unlikely to be implemented in the near future. Highlights of 2018 were the agreed strengthening of the European Stability Mechanism (ESM), the introduction of the MiFID II rules and initial application of IFRS 9.

Addressing the prevailing low interest rate environment poses another Europe-wide challenge to the banking sector, which is likely to persist in 2019. The pressure on profits is set to continue, particularly where banks are reliant on net interest margins and have done little to diversify their income streams. The issue of capitalisation has now largely been resolved by the EU banks. This is reflected in the improvement in last year's European Banking Authority (EBA) stress test results as compared to 2016. The most striking outcome is a greater risk bearing capability in some cases.

The Austrian banking sector was among those deemed to have made progress. The Oesterreichische Nationalbank (OeNB) gave prominence to this in its Financial Stability Report published in November 2018, and in its report entitled "Facts on Austria and its Banks", issued in January 2019. Austria's banks have lately been profiting from the restructuring exercises of the past few years. As a result of this concentration process, the number of banks (main institutions) has dropped by around a quarter since 2012. Consolidated profits were up again over the first nine months of 2018, buoyed by the brighter economic backdrop and resultant opportunities to reverse credit risk provisions, among other factors. An increase in new lending also stood out, with households more frequently taking out new loans at fixed interest rates. Improved profitability contributed to a further strengthening of capitalisation, in turn fortifying Austrian financial market stability. The non-performing loan (NPL) ratio decreased by 0.8 percentage points year on year to stand at 2.9% as at 30 September 2018 (FINREP data, total loans and advances).

According to the EBA the benign economic climate also led to a sustained recovery of the Eastern European banking sector. The positive trends in new lending in the CEE region — particularly in the Czech Republic, Romania and Slovakia — also persisted in 2018. There was a further substantial improvement with regard to asset quality, and the aggregate NPL ratio in the region was below 6% as at 30 September 2018. The loan to deposit ratio was under 100% at that date. Thanks to these trends the return on equity in the CEE banking sector remains well above that in the eurozone.

# FINANCIAL REVIEW

## Financial performance in 2018

The HYPO NOE Group has applied IFRS 9 since 1 January 2018. This has resulted in changes in the Group's accounting and measurement methods. In accordance with the transition provisions in IFRS 9, comparative figures have not been adjusted. Notes on the changes to accounting methods and the effects of initial application can be found in Note 2 Accounting policies.

## Earnings (IFRS)

Group profit before tax in 2018 was up significantly year on year, at EUR 48.0m (2017: EUR 38.8m).

Despite persistently low interest rates, "Net interest income" increased by EUR 3.1m to EUR 111.9m (2017: EUR 108.9m).

"Net fee and commission income" was roughly the same as in the previous year, at EUR 14.8m (2017: EUR 15.4m).

"Net gains on financial assets and liabilities" of EUR 14.2m were mainly attributable to a fair value measurement. Details can be found under Note 8.1 Fair value disclosures.

Thanks to the Zukunftsfit 2020 efficiency programme, "Administrative expenses" fell by 2.6% or EUR 3.0m, to EUR 112.8m (2017: EUR 115.8m). Besides low depreciation, amortisation and impairment of EUR 0.4m, this improvement mainly resulted from reductions in staff costs and other administrative expenses of EUR 1.3m, respectively. As in the previous year, "Administrative expenses" include the special payment for the stability contribution, as well as the contributions to the resolution and deposit insurance funds (totalling EUR 13.6m in 2018).

"Net other operating income" of EUR 9.8m mainly arose from the disposal of a subsidiary and recognition of various provisions. Details are given under notes 5.5 Net other operating income and 6.19 Provisions.

Thanks to highly effective restructuring measures, "Impairment losses/gains on financial assets – IFRS 9 ECL" was positive to the tune of EUR 10.6m.

As in the previous year, in 2018 the recognition of impairments in respect of an associate weighed on "Net gains or losses on investments accounted for using the equity method". Further details are found under Note 3.2.3 Associates and joint ventures.

The rise in "Profit before tax" is reflected in the following financial indicators:

| | | 2018 | 2017 |
|---|---|---|---|
| Return on equity before tax | Profit before tax/<br>ave. consolidated equity | 7.01% | 5.86% |
| Return on equity after tax | Profit for the year/<br>ave. consolidated equity | 5.33% | 4.40% |
| Return on assets | Profit for the year/total assets | 0.26% | 0.20% |
| Cost-income ratio | Operating expenses/operating income | 66.96% | 67.78% |
| NPL ratio | Carrying amounts of non-performing financial assets – AC<br>(excl. banks)/Financial assets – AC (excl. banks) | 1.42% | 1.94% |

## Changes in the statement of financial position and consolidated equity (IFRS)

Adoption of IFRS 9 has led to changes in the classification and measurement of financial assets, and their impairment. As a result, a year-on-year comparison of financial assets and liabilities is only possible to a limited extent. Other items, such as current and deferred tax assets and liabilities, or "Other assets", are also significantly affected by the changeover. Please refer to Note 2 Accounting policies for related information.

As at 31 December 2018, due to the high profit for the year of EUR 36.4m, IFRS consolidated equity including non-controlling interests was EUR 663.4m – down by only EUR 11.9m on year-end 2017, despite mandatory application of the new classification and measurement treatment of financial assets under IFRS 9, which had to be reported as opening balance entries (EUR -37.9m), and EUR 4.0m in dividend payments including minority interests in 2018.

## Changes in consolidated eligible capital (CRR/CRD IV[1])

Regulation (EU) No 575/2013 (Capital Requirements Regulation IV, CRR IV), which came into effect on 1 January 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.

Consolidated eligible capital in accordance with the CRR was EUR 646.2m as at 31 December 2018 (31 Dec. 2017: EUR 645.1m). Surplus capital as at 31 December 2018 was EUR 399.6m (31 Dec. 2017: EUR 384.9m), in comparison with a capital requirement of EUR 246.5m (31 Dec. 2017: EUR 260.1m). The Tier 1 capital ratio in accordance with Article 92(2)(b) CRR and the total capital ratio in accordance with Article 92(2)(c) CRR were 20.97% as at 31 December 2018 (31 Dec. 2017: both ratios 19.84%), and were identical with the fully loaded ratios (31 Dec. 2017: both fully loaded ratios 20.12%).

## Cost/income ratio

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

Operating expenses are based on the figure for "Administrative expenses", excluding the following extraordinary, non-recurring components in 2018: (1) the contribution to the resolution fund; (2) the contribution to the deposit insurance fund, and (3) the instalment of the financial stability contribution spread over the years 2017–2020.

"Operating income" is composed of "Net interest income", "Net fee and commission income", "Net gains or losses on financial assets and liabilities", "Net other operating income" and "Net gains or losses on investments accounted for using the equity method" excluding the following extraordinary, non-recurring components in 2018: (1) the valuation of the "HETA contingent purchase price"; (2) the proceeds of the disposal of Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH; and (3) allocations to various provisions.

"Administrative expenses" was also adjusted as described above to calculate operating expenses in 2017, and various provisions were stripped out of operating income for that year.

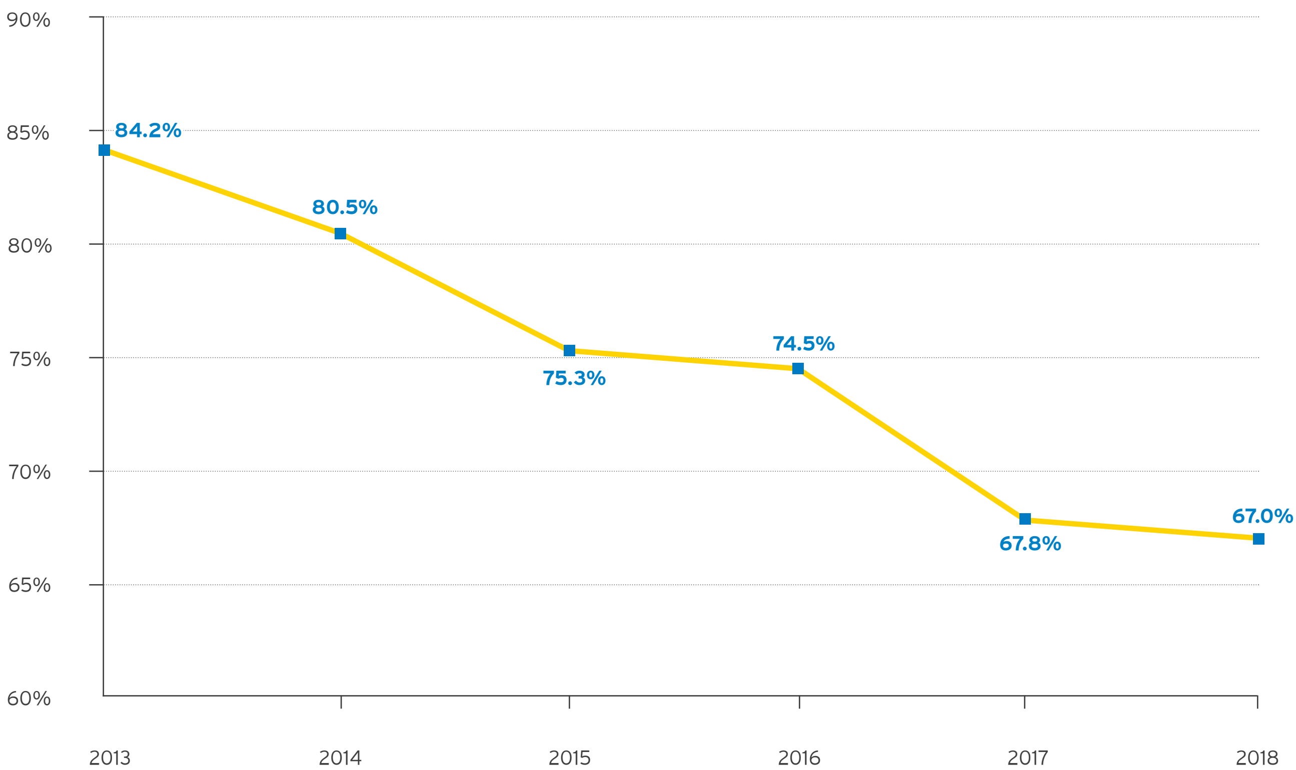
[1] Capital Requirements Regulation (CRR), Capital Requirements Directives (CRD IV)

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Net interest income | 111,933 | 108,861 |
| Net fee and commission income | 14,791 | 15,381 |
| Net gains on financial assets and liabilities | 14,233 | N/A |
| Net trading income | N/A | -509 |
| Net gains or losses on hedges | N/A | -5,369 |
| Net gains or losses on available-for-sale financial assets | N/A | -163 |
| Net gains or losses on financial assets designated as at fair value through profit or loss | N/A | 57 |
| Net other operating income | 9,753 | 30,523 |
| Net losses on investments accounted for using the equity method | -534 | -3,311 |
| Extraordinary effects | -2,086 | 3,056 |
| **Operating income** | **148,090** | **148,526** |
| Administrative expenses | 112,772 | 115,806 |
| Extraordinary effects | -13,609 | -15,130 |
| **Operating expenses** | **99,163** | **100,676** |
| | | |
| **Cost/income ratio (CIR)** | **67.0%** | **67.8%** |

The presentation below of changes in CIR since 2013 reveals a striking improvement as a result of the success of the cost reduction and efficiency measures taken (the Zukunftsfit 2020 project).

## CIR OVER TIME SINCE 2013

*Retrospectively adjusted, as described above



## NPL ratio

Calculation of the NPL ratio was adjusted due to the transitioning of statement of financial position items to IFRS 9 categories. As at 31 December 2017 the NPL ratio was calculated by dividing the gross carrying amounts of non-performing loans and advances to customers by total loans and advances to customers. The calculation is now based on the "Financial assets – AC" item, adjusted for the "Loans and advances to banks" asset class.

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

| EUR '000 | 31 Dec. 2018 | 1 Jan. 2018 | 31 Dec. 2017 |
|---|---|---|---|
| Loans and advances to customers | N/A | N/A | 10,230,232 |
| Financial assets – AC (excl. banks) | 10,784,458 | 10,802,792 | N/A |
| Non-performing loans | 152,959 | 209,717 | 171,287 |
| **NPL ratio** | **1.42%** | **1.94%** | **1.67%** |

"Non-performing loans" were higher on 1 January 2018 than on 31 December 2017 as a result of the reclassifications required by the introduction of IFRS 9. "Available-for-sale financial assets" were reclassified to "Financial assets – AC", which are now presented as "Non-performing loans". The reduction in the NPL ratio by 0.52 percentage points is a result of systematic and effective intensive care management; the fall in the volume of non-performing loans is largely due to the successful management of a single exposure and its reclassification as a performing loan.

# BUSINESS SEGMENTS: OPERATIONAL REVIEW

This report on the HYPO NOE Group was prepared by the Group's parent, HYPO NOE Landesbank für Niederösterreich und Wien AG (HYPO NOE Landesbank), Austria's oldest and one of the country's largest state-owned regional banks. Founded in 1888, it has a long tradition in the banking and financial services sector. HYPO NOE Landesbank is wholly owned by the State of Lower Austria, enabling it to build on foundations of stable and dependable ownership. Based on a regional focus, closeness to customers and sustainability, HYPO NOE Landesbank's strategy has stood the test of time and the Bank remains strongly committed to it.

The HYPO NOE Group is principally active in its core market of Lower Austria and Vienna, as well as in the rest of Austria and in selected countries in the neighbouring CEE region. The Group's aspiration and mission is to act as a secure and reliable partner to its public sector, real estate, retail and corporate clients. The product portfolio focuses on finance for hard and social infrastructure, as well as real estate and corporate customers, and commercial and non-profit housing developers. HYPO NOE Landesbank has 27 branches in Lower Austria and Vienna, serving more than 80,000 customers.

In May 2018, rating agency Standard & Poor's reaffirmed its solid A/A-1 ratings for HYPO NOE Landesbank, and upgraded its outlook to positive in view of the sustained increase in the Bank's capital. Moody's high Aa1 ratings on HYPO NOE Landesbank's public sector and mortgage cover pools have also remained unchanged. In terms of sustainability, the bank for Lower Austria is among the leaders in the sector. An ISS-oekom C rating with Prime status is testimony to HYPO NOE Landesbank's outstanding commitment to environmental and social affairs.

During the reporting period, significant progress was again made on implementing the Zukunftsfit 2020 efficiency programme, which was launched in 2016. The programme involves shaking out the Group's organisational structures, as well as optimising processes and the business model. In this regard, the merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG into HYPO NOE Landesbank für Niederösterreich und Wien AG was successfully completed. Reintegrating the retail and housing construction businesses into the core bank was part of this process. This was followed by optimisation of the organisational structure of the merged bank, which was concluded on schedule. During the optimisation process, there was a consistent emphasis on leveraging additional synergies and streamlining organisational structures. To this end, previously separate units were merged in 2018, while the Management Board team shrank further, to two members, following an initial reduction from five to three members after the merger. The Management Board currently comprises Wolfgang Viehauser, Management Board Member Markets and Spokesman, and Udo Birkner, Management Board Member Finance, Risk & Operations. Both were part of the Management Board team prior to its streamlining in 2018 and they will continue to implement the initiatives now under way. The new structure can be found in the HYPO NOE Landesbank für Niederösterreich und Wien AG organisation chart, shown in the section on human resource management, below.

Going forward, Zukunftsfit 2020 will centre on process optimisation supported by options opened up by digitalisation. Besides achieving ongoing efficiency gains through automation and process rationalisation, which are central to locking in low costs in the long term, investment in the Group's digital infrastructure will be targeted. The business model will be adapted in line with the aim of further increasing the HYPO NOE Group's profitability. With this in mind, during the reporting period wholly owned subsidiary HYPO NOE Valuation & Advisory GmbH, which specialises in valuing real estate collateral, was reintegrated into the banking operations and HYPO NOE Immobilien Beteiligungsholding GmbH, which is responsible for the Group's real estate services business, was given a new strategy and management team.

The measures implemented so far under the Zukunftsfit 2020 programme have led to a sharp decline in administrative expenses. The resulting improvement in the Group's profitability is reflected in improved generation of retained earnings, which in turn will help to maintain a strong capital base in the long term.

The reduction in the Management Board members' areas of responsibility from three to two from 1 December 2018 onwards, and the related organisational streamlining has also led to changes in the segment reporting: the Corporate & Structured Finance unit has been spun off from the former Real Estate & Large Corporates segment (now renamed Real Estate Customers) and integrated into the Corporate Customers segment, which will now be reported in its entirety under the Retail and Corporate Customers segment.

Figures for the individual segments, as well as supplementary narrative information, can be found under Note 7.1 Business segment information.

## Public Sector segment

### PUBLIC FINANCE

The Public Finance unit offers financing solutions to local and regional authorities, public agencies and infrastructure businesses. In 2018 its operations focused on Austria's eastern federal states (Lower Austria, Vienna, Upper Austria, Styria and Burgenland) and on deepening its relationships with enterprises linked to the federal and state governments. Public finance solutions were directly marketed to national, regional and metropolitan authorities in the CEE region on a selective basis. Public Finance works with other parts of the Group to create integrated, sustainable financing solutions for public sector customers, and has built a solid reputation as a leading provider of expertise and services.

Funding extended to public authorities in the year just ended mainly related to investments in education (in particular nurseries and schools), administrative facilities, and water supply and wastewater infrastructure. HYPO NOE Landesbank is firmly committed to relationship banking – close customer relationships and the provision of quality advice are essential in today's market environment. With this in mind, the Group attaches great importance to in-service training for its customer relationship managers, carried out in cooperation with partners such as the Lower Austria Community Management Academy and Danube University Krems.

Within Public Finance, HYPO NOE Leasing GmbH and its project companies look after the public sector leasing business, and in particular the Lower Austrian state government and public agencies. Its core competency is complex lease agreements connected with real estate projects. It also offers business management and real estate project management services.

Against the backdrop of changing financing requirements among state governments and local authorities, there is stronger demand for special financing models for public sector construction projects, such as operating leases in the meaning of the European system of accounts (ESA) and public-private partnership solutions. In response to increased market demand, HYPO NOE Leasing GmbH has driven forward the development of such products. The company will continue to systematically pursue this strategy, and it is planned that such forms of financing will become a key line of business in the medium term. A number of projects in the education and health sectors were successfully implemented under the leadership of HYPO NOE Leasing GmbH during the reporting period.

### RELIGIOUS COMMUNITIES, INTEREST GROUPS AND AGRICULTURE

Finance for social facilities was again the predominant activity in Religious Communities, Interest Groups and Agriculture (KIA) in 2018. The unit acquired and funded faith-based construction projects in the greater Vienna area, Lower Austria and Upper Austria. Some of these projects are scheduled for completion in several years' time.

KIA's product portfolio includes finance for the renovation and revitalisation of churches and church buildings, as well as for social and public infrastructure owned by religious institutions, such as care and social centres, and educational, health and tourist facilities. Finance for agricultural enterprises is another focus. The range of bespoke financing models also includes investments in the shape of cover pools and time deposits, as well as in low-risk securities.

### PUBLIC LOAN MANAGEMENT

The Lower Austrian government has mandated the HYPO NOE Group to handle the administration of state-subsidised home-building loans, and the Bank fields queries from recipients regarding account management, account balances and repayments. The Group provides efficient, cost-effective 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, the HYPO NOE Group handles accounting for many Lower Austrian state government grants, such as those to schools and nurseries.

In recent years, the Group has assisted the Lower Austrian state government with the technical and organisational implementation of large-scale home loan subsidies, and now also acts as a point of contact for questions regarding administrative issues from the various banks involved in disbursements. By the end of 2018, 15 tranches of Lower Austria's new high-volume home loan scheme had been transparently processed in ten tendering rounds.

## Real Estate Customers segment

### HOUSING DEVELOPMENT

As a specialist in non-profit housing construction, the Housing Development unit provides a wide range of products and flexible finance solutions. Other key focuses are investments and payment transactions.

Operations in 2018 again centred on the Lower Austria and Vienna core markets, while the unit has also recently made inroads in Upper Austria and Styria. There is increasing demand for owner-occupied apartments – especially due to population growth — particularly in urban areas. Vienna's population is growing faster than that of any other federal state in Austria, while Lower Austria is close to the national average.

The availability of needs-based, affordable housing is a key priority of Lower Austria's housing construction and subsidies policy. The Lower Austrian state government is playing its part by extending guaranteed bank loans. The Housing Development unit won a state government tender to provide a tranche of subsidised financing. In future, Housing Development will offer tailor-made financing solutions by way of conventional mortgages with a view to maintaining the supply of affordable housing in its core market. There was a sharp increase in the volume of funding for non-profit housing associations in 2018.

### HOUSING AND COMMERCIAL PROPERTY AUSTRIA

As part of its important role in the Group until September 2018, Housing Development was also responsible for handling finance for commercial housing construction. Funding was primarily extended to projects worth more than a specified threshold value. Finance was also provided for real estate and other projects as well as existing properties (such as rental apartment buildings) mainly earmarked for use in satisfying housing demand.

The customers of the new Housing and Commercial Property Austria unit are property developers, investors, commercial clients, owners of existing properties, owners' associations and property management companies. Private individuals and doctors who operate on a commercial scale, and who are not legally classified as consumers, are also clients of the unit.

In October 2018, Housing Development's commercial property development operations were spun off into a separate unit which also assumed responsibility for commercial real estate. The Housing and Commercial Property Austria unit is solely concerned with finance for mortgaged properties in Austria.

The lending provided by the new Housing and Commercial Property Austria unit was well up on the previous year's figures, and it is focusing strongly on leveraging earnings potential and achieving a well balanced risk profile.

### REAL ESTATE PROJECT FINANCE

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

In 2018 the unit continued to focus on its defined target markets, in particular Austria, the Czech Republic, Germany, Poland, Romania and Slovakia. Lending limits and conditions in Germany are monitored closely, and financing projects are only implemented on terms that are in line with the HYPO NOE Group's business policies. Increased participation in club deals and syndicated project finance was the main feature of operations in 2018. HYPO NOE Landesbank also acted as a consortium lead manager and arranger. This helped to extend the pool of potential customers, and opened up opportunities to generate additional fees and commissions.

Low interest rates and record low returns on alternative investments have led to sharply increased demand across most real estate categories. Central Europe's commercial and residential property markets are still among the most attractive in the world for foreign investors. Real Estate Project Finance pays particular attention to earnings potential and achieving an adequate risk-return ratio. To this end, it selectively acquires new customers among institutional investors, funds and property developers.

The unit's business model is based on financing for the office, shopping centre, retail park, housing, logistics and city hotel asset classes. Portfolios of mixed-use properties in various locations, with a wide range of tenants, also serve to significantly diversify risk. As regards risk allocation, Real Estate Project Finance cooperates with established partners on individual properties in prime locations, under long-term financing arrangements. In 2018, operations again centred on the core Austrian and German markets, and on neighbouring EU member states. The unit is keeping track of macroeconomic developments and regional property market trends in its target markets outside Austria.

## Retail and Corporate Customers segment

### RETAIL CUSTOMERS

HYPO NOE Landesbank's branches provide outstanding service to retail, self-employed and corporate customers in its Lower Austrian and Viennese core market.

The Retail Customers unit has defined "finance and housing", "saving and investment" and "accounts and cards" as its core competences. The "finance and housing" pillar was extended further during the reporting period, with a focus on subsidies. Close cooperation with the State of Lower Austria enables the Group to offer end-to-end support on loans and subsidies, ensuring informed advice and efficient processing. In 2018 HYPO NOE Landesbank entered into a consumer credit partnership with specialist finance provider TeamBank Österreich. This partnership is another step in the long-term expansion of the HYPO NOE Group's service business, based on its well-tried advisory process. In the "accounts and cards" area, a new account package including comprehensive account and purchase protection was launched in May 2018. The "saving and investment" business line also generated steady earnings thanks to the attractive integrated product range.

A new branch design concept attuned to the changing conditions on the retail customer market was developed, and was unveiled in October 2018 with the opening of the redesigned Stockerau branch. The new look includes spaces for in-depth advice for customers making key life decisions, especially in connection with borrowing and retirement planning. Customers can take care of run-of-the-mill banking transactions in the self-service foyer. In parallel, the Group has extended its range of digital services – customers can take advantage of the HYPO NOE Group's bespoke solutions using online and mobile banking. The HYPO NOE Mobile Banking app (for online banking) was upgraded to include additional functions and now also features an improved display and more user-friendly operation.

Intensive, customer-focused efforts to streamline the lending portfolio during the year led to a significant drop in the number of foreign currency loans. Meanwhile credit risk provisioning continued to move in the right direction in 2018.

At the annual Recommender Awards ceremony staged by the Austrian Financial Marketing Association (FMVÖ) in May 2018, HYPO NOE Landesbank was named the "most improved bank of the year" following a step change in customer satisfaction. In addition, the Bank took top spot for the quality of its advisory services in Vienna as part of a "mystery shopper" test carried out by independent consumer research institute Gesellschaft für Verbraucherstudien mbH (ÖVGS) and trend business magazine.

### CORPORATE CUSTOMERS

This unit is responsible for providing a comprehensive range of services aimed at the Group's corporate customers. It is split into several customer service teams: besides a team dedicated to SMEs there is a group focusing on large corporates, as well as a team specialised in structured transactions and product solutions, especially subsidised loans and export finance.

The unit places a strong emphasis on proximity to customers. Both SMEs and large corporates in Lower Austria and Vienna are served by competence centres in St. Pölten and Vienna. Selected companies in other federal states also form part of its customer base. As far as services for large corporates are concerned, the unit's overriding objective is to be an expert, long-term partner to leading Lower Austrian businesses.

Companies of all sizes can tap the wide-ranging expertise of this specialist structuring and products unit. As well as project finance, the unit offers structured finance solutions for acquisitions, leveraged buyouts and business succession. Corporate Customers aims to participate in club deals or loan syndicates for major transactions. In 2019 it intends to broaden its range of export and foreign trade financing services for corporate customers. The groundwork for this was laid by forging a closer partnership with Oesterreichische Kontrollbank (OeKB).

In 2018 Corporate Customers again had a strong track record in supporting German businesses entering the Austrian market. The unit assists Austrian companies with their export business by providing local know-how through a network of representative offices in selected locations in Bulgaria, the Czech Republic, Romania and Slovakia.

Corporate Customers further expanded its operations in 2018 and successfully implemented its growth strategy. This again enabled the HYPO NOE Group to act again as an engine of the Lower Austrian and Viennese economy. Another goal is to increasingly partner companies with their investment activities and – in today's low interest environment – offer tailored securities solutions.

In addition, corporate customers have access to HYPO NOE Versicherungsservice GmbH's experts, who deal with all aspects of corporate insurance, including pension schemes.

## Treasury & ALM segment

### TREASURY AND FUNDING

The international capital markets saw particularly lively issuance activity in the first half of 2018. HYPO NOE Landesbank floated two benchmark bonds during the year. In April a 5.5-year, EUR 500m senior unsecured benchmark bond was issued after an extensive Europe-wide roadshow.

The HYPO NOE Group's solid position on the market permitted another bond issue in the second half of the year. A seven-year, EUR 500m benchmark covered bond from the public sector cover pool was issued at the end of August amid favourable market conditions. Another significantly oversubscribed order book – a reflection of the Bank's standing on the international markets – paved the way for a highly successful deal.

HYPO NOE Landesbank is well positioned in terms of refinancing options and draws its liquidity from conventional capital market transactions and deposits, as well as from standard repo transactions and ECB tenders. The Bank also obtains refinancing on the basis of its close relationships with development banks. The growth in institutional investor business in 2017 showed that HYPO NOE Landesbank is a valued partner. In 2018 the level of deposits from institutional investors was reduced as planned, in favour of longer-term capital market transactions. In the course of the year it became clear that the level of demand from institutional investors is consistently strong.

#### NOSTRO

The Group purchased selected, newly issued government bonds and covered bonds with attractive spreads in the course of its active management of the liquidity portfolio. The average volume-weighted rating of the purchased securities was equivalent to AA. There was a noticeable widening in credit spreads during 2018, due mainly to international political developments.

#### ALM

Asset Liability Management (ALM) aims to stabilise net interest income and achieve positive structural contributions. This is done by managing interest risk and the Group's interest position on the basis of specified risk-return ratios. Interest-related items in the statement of profit or loss are managed in accordance with approved facilities and limits.

#### INSTITUTIONAL CUSTOMERS

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

#### INVESTOR RELATIONS

Ensuring prompt, comprehensive and transparent capital market communications is a central concern for the HYPO NOE Group. Investors and analysts are regularly informed of the Bank's performance and recent developments. This communication takes place face-to-face as well as by means of extensive online resources (www.hyponoe.at/en/ir).

Preparations for both of the successful benchmark bond issues – a senior unsecured bond and a covered bond – were highlights of 2018. The attractive conditions for both issues and the granular order book are testimony to HYPO NOE Landesbank's strong reputation as an issuer on the international capital markets.

International investors and analysts took part in an earnings call on publication of the 2017 results. At an investor breakfast held in Vienna, capital market partners from Austria and abroad took the opportunity to talk directly with the members of the HYPO NOE Group's Management Board.

Periodic and specific event-related publications are posted in the investor relations section of the HYPO NOE website. These include the regular consolidated reports, as well as presentations and factsheets for investors, information on the current credit, covered bond and sustainability ratings, and HYPO NOE Landesbank's issuance activities. In addition, the investor relations newsletter keeps subscribers updated on current events.

### Real Estate Services segment

HYPO NOE Immobilien Beteiligungsholding GmbH, which comprises operating companies HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH, has overall responsibility for the HYPO NOE Group's real estate services business. The Group's property companies operate under a single brand, HYPO NOE Immobilien. In line with the primary goal of providing a one-stop shop for the entire real estate management value chain, the holding company manages facility, property and project management, as well as real estate sales and brokerage services and project development.

HYPO NOE's real estate businesses maintained their focus on quality management and compliance in 2018. All three companies are certified in accordance with ISO 50001:2011 Energy management, ISO 37001:2016 Anti-bribery management systems, and ISO 19600:2014 Compliance management systems. The real estate business passed an external surveillance audit focused on compliance at the end of 2018. One of the first facility management services companies in Austria, HYPO NOE First Facility GmbH has obtained the German Facility Management Association's highest certification for integrated process responsibility for facility management (GEFMA 730 ipv® FM Excellence). The company also has ISO 9001:2015 Quality management systems and ISO 14001:2015 Environmental management systems certification.

The market situation in the CEE countries remained largely unchanged in 2018. Stiff price competition is accelerating the consolidation process in asset, property and facility management. The strategic realignment and management restructuring at HYPO NOE Immobilien Beteiligungsholding GmbH is aimed primarily at optimising service quality, as well as streamlining internal structures. The focus is on servicing core Lower Austrian businesses, local authorities and the State of Lower Austria itself.

## Corporate Center

Business activities that are not allocated to other segments are reported under the Corporate Center. The Corporate Center is also used for consolidation effects where these are not recognised under other segments.

### PARTICIPATIONS

HYPO NOE Landesbank holds investments that support its strategy. The Bank only enters into and retains such investments if they are compatible with the Group's primary business objectives. In its capacity as a shareholder representative, the Bank promotes, guides and assists investees' strategic business development.

Details of changes in the scope of consolidation can be found under Note 3.1 Basis of consolidation.

### FOREIGN BRANCHES, REPRESENTATIVE OFFICES AND BRANCHES

HYPO NOE Landesbank für Niederösterreich und Wien AG had no foreign branches in 2018, but operated representative offices in Bucharest, Budapest, Prague and Sofia. HYPO NOE Landesbank has operated a branch at Wipplingerstrasse 4, 1010 Vienna since 2008.

As at 31 December 2018, HYPO NOE Landesbank had 27 branches in Lower Austria and Vienna.

# HUMAN RESOURCE MANAGEMENT

The contribution made by each and every employee of the HYPO NOE Group assures its success over the long term. Their motivation and satisfaction have been the cornerstone of the productivity gains achieved in the last few years. For this reason, Management has prioritised the development of a positive corporate culture.

Following the merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG in September 2017, the new Management Board, comprising Wolfgang Viehauser and Udo Birkner, initiated an organisational development process at the end of 2018. The programme was launched on 7 December 2018. Known as Fokus 25, the project's goal is to put the HYPO NOE Group on course for the sustained success in the future. This will involve a re-evaluation of the Group's strategy and corporate and leadership culture, as well as of cooperation within the Bank and the Group as a whole. Staff will have the opportunity to actively participate in the project, and so help to shape the HYPO NOE Group's future.

## Human resources in 2018: facts and figures

At year-end 2018 the HYPO NOE Group had 789 employees (2017: 812), 40 of whom were on unpaid leave (2017: 42). The 789-strong workforce comprised 445 male and 344 female staff (2017: 451 male and 361 female). In terms of full-time equivalents (FTE), there were 698.8 employees at year-end (2017: 722.9). The headcount falls to 655.9 FTE as at 31 December 2018 if non-active employees are excluded. Six people (FTE) were employed at the representative offices abroad (2017: five).

The table below shows the changes in employee numbers over time.

| | 2018 | | | | | | | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HC | | | Ave. HC p.a. | FTE | | | HC | | | Ave. HC p.a. | FTE | | |
| | Total | m | f | Total | Total | m | f | Total | m | f | Total | Total | m | f |
| HYPO NOE Landesbank für Niederösterreich und Wien AG | 603 | 322 | 281 | 607.7 | 526.9 | 300.3 | 226.6 | 615 | 320 | 295 | 626.6 | 539.9 | 300.7 | 239.2 |
| HYPO NOE Real Consult GmbH | 48 | 20 | 28 | 49.8 | 42.5 | 18.8 | 23.7 | 40 | 14 | 26 | 41.3 | 34.3 | 13.3 | 21.0 |
| HYPO NOE Leasing GmbH | 30 | 11 | 19 | 31.7 | 27.1 | 11.0 | 16.1 | 33 | 11 | 22 | 33.8 | 29.0 | 11.0 | 18.0 |
| HYPO NOE Valuation & Advisory GmbH | – | – | – | 2.0 | – | – | – | 3 | 2 | 1 | 3.0 | 3.0 | 2.0 | 1.0 |
| HYPO NOE First Facility GmbH | 100 | 87 | 13 | 102.6 | 95.6 | 84.9 | 10.7 | 107 | 95 | 12 | 111.8 | 103.2 | 91.3 | 11.9 |
| HYPO NOE Versicherungsservice GmbH | 6 | 4 | 2 | 5.8 | 5.2 | 4.0 | 1.2 | 4 | 3 | 1 | 4.0 | 3.5 | 3.0 | 0.5 |
| HYPO NOE Immobilien Beteiligungsholding GmbH | 2 | 1 | 1 | 1.3 | 1.5 | 0.5 | 1.0 | 10 | 6 | 4 | 13.1 | 10.0 | 6.0 | 4.0 |
| **HYPO NOE Group** | **789** | **445** | **344** | **800.9** | **698.8** | **419.5** | **279.3** | **812** | **451** | **361** | **833.6** | **722.9** | **427.3** | **295.6** |

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

## Organisational matters

Implementation of the Group's new organisational structure played a defining role in HR management in 2018. Ongoing organisational streamlining also affected the Management Board, which was reduced from three to two members who are now responsible for the Bank's operations. The new, agile structure also opened up development opportunities for many of the Bank's staff.

In addition, further progress was made on restructuring the Group's real estate business.

Organisational changes aimed at increasing efficiency have enabled a reduction of over 150 full-time posts since 2015. The number of company cars has also fallen significantly.

## HR development

Human resource development at HYPO NOE Landesbank für Niederösterreich und Wien AG is geared towards the Group's strategic goals and providing long-term support for the achievement of strategic and operational targets. Staff appraisals play a central role in HR development. These were relaunched in 2018 and the new format was presented and explained at a number of training events. Appraisals involve discussion and definition of individual training and development needs. The Group's programme of internal training courses is put together based on the feedback from these discussions. As well as professional training, the Group places a strong emphasis on personal development.

Major focuses in 2018 included the HYPO 1 and HYPO 2 foundation qualifications in banking, which is specified in the collective agreement for employees of Austrian state mortgage banks, as well as training to enable more investment advisors to gain the European Investment Practitioner certificate, and successful recertification of staff who already held the qualification. Cooperation with education institute HYPO Bildung, which offers advanced training for investment advisors, began in autumn 2018 with the initial European Financial Advisor (EFA) course.

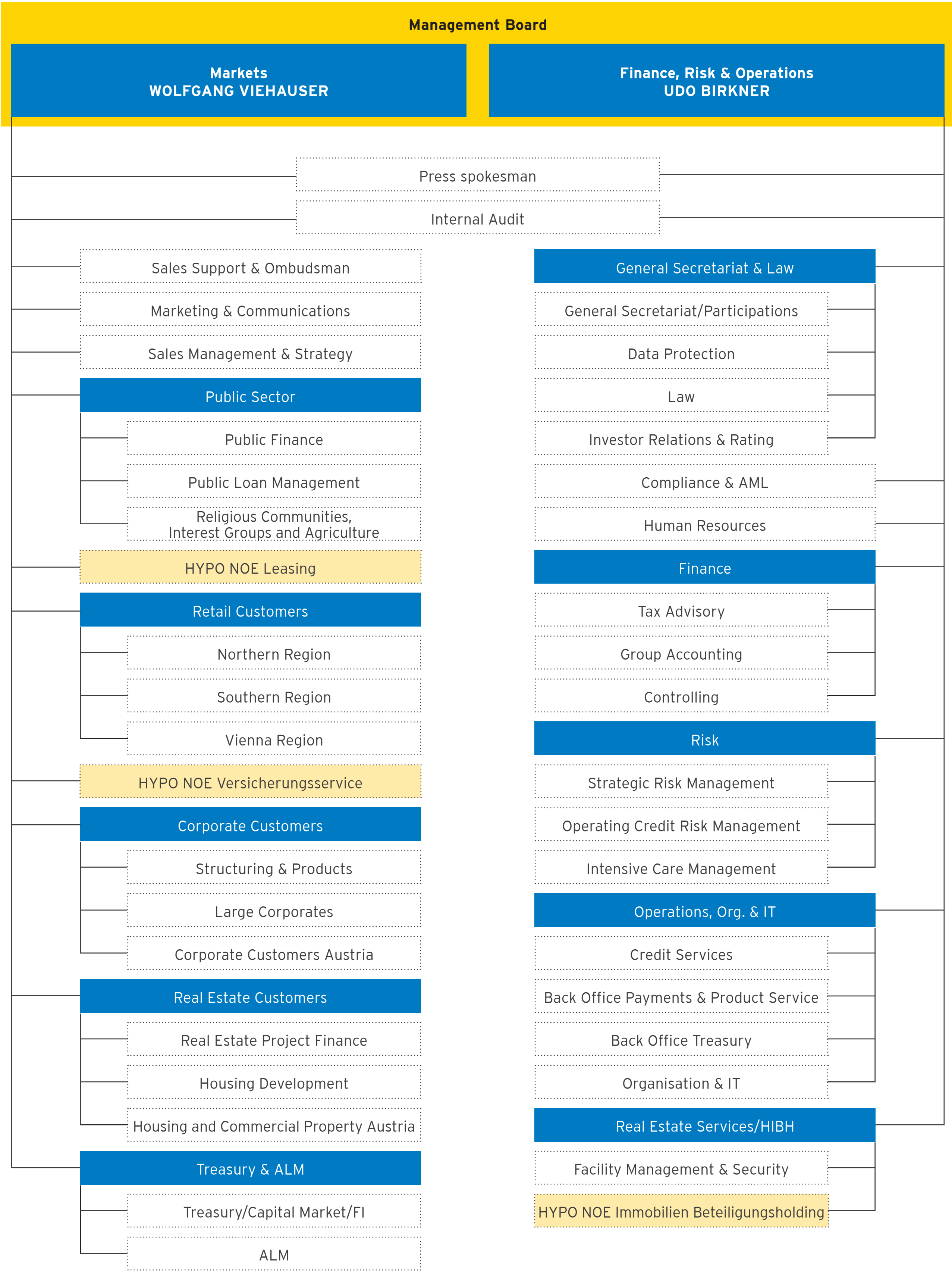
In addition to professional training, the Group also held a range of seminars and workshops on personal development topics such as communication, health and team development. A large number of employees consolidated and enhanced their expertise in using MS Excel as a result of targeted training in 2018.

The Group also offered specialist and personal development-focused training tailored to individual requirements.

## Sustainability and human resource management

The HYPO NOE Group is committed to providing support to its staff when it comes to recognising and preventing health risks. As in previous years, in 2018 employees experiencing difficult situations were offered professional and anonymous support from external experts. Assistance is provided in connection with both professional and private circumstances, and includes support in crisis situations. In addition, the long-running Body Signals and Stress seminar was held once again in 2018. The course focuses on recognising personal behaviour patterns that can result in stress and developing individual approaches for dealing with stressful situations. An expanded seminar programme for 2019 on the topic of body signals and stress was drawn up in the last quarter of 2018.

## HYPO NOE LANDESBANK FÜR NIEDERÖSTERREICH UND WIEN AG ORGANISATION CHART



# RISK REPORT

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

# INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (ICS)

## Internal audit

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

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

The HYPO NOE Group's internal auditing activities are based on annual audit plans approved by the 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 Internal Audit Department was also involved in a variety of projects. The other departments made extensive use of its advisory services.

In 2018, 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, Internal Audit 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 also 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 Internal Audit Department delivers optimum performance and fulfils its responsibilities in the Group.

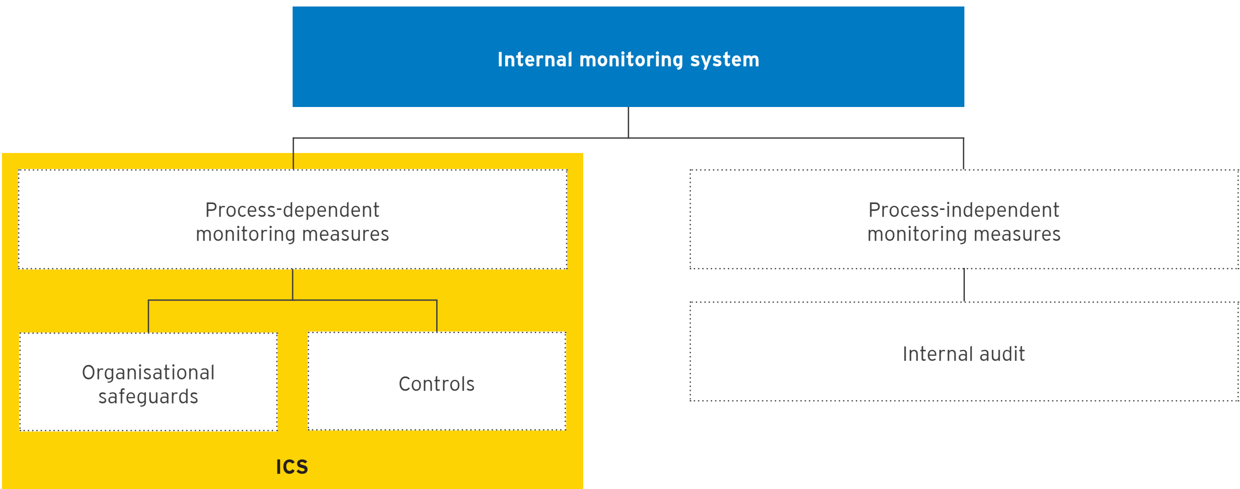
## Relationship between the ICS and the accounting process

In 2018 the ongoing development of methods for the identification, quantification, monitoring and management of operational risk, and of the ICS as a whole was once again a high priority.

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

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

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



As part of the process-independent measures, internal audit is clearly distinct from the ICS. All internal audit activities are subject to Group-wide standards based primarily on the Austrian Banking Act, the FMA Minimum Standards for Internal Auditing and international best practice. The independent internal audit function regularly reviews compliance by departments and other organisational units with the internal regulations. In 2018, the audits carried out in Group Accounting focused on processes (including the ICS), credit services for clearing accounts, IFRS 9 and reporting.

There are two forms of process-dependent monitoring measures:

### ORGANISATIONAL SAFEGUARDS

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

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

### CONTROLS

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

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

Examples of ICS controls:

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

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

The main features of the Group's internal control and risk management systems, 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 at HYPO NOE Landesbank für Niederösterreich und Wien AG is responsible for all accounting matters and for issuing instructions for the purpose of ensuring 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 events with regard to the following:

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

subjecting them to automated checks. Group Accounting performs plausibility checks and prepares trial balances.
- Periodic reports are sent to the Oesterreichische Nationalbank (OeNB) in accordance with the statutory reporting requirements for banks. These are forwarded via the computer centre, and Group Accounting performs plausibility checks and corrects any errors.
- IT security checks are one of the cornerstones of the internal control system. Sensitive activities are firewalled by taking a restrictive approach to IT authorisations.

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

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

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

The ICS ensures that all transactions are properly recorded, processed and documented. It also makes sure that assets and liabilities in the annual financial statements are recognised, reported and measured in accordance with the applicable legal and regulatory requirements.

The ICS is 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 adequate and not 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.

In 2018, ICS-related activities focused on gap analysis, as well as on implementing initial measures in response to the new regulatory requirements regarding information and communication technology (ICT) risk, and payment transaction risks (in respect of PSD2).

# RESEARCH AND DEVELOPMENT

As a financial services provider, research and development in the industrial sense only plays a minor role at the HYPO NOE Group. The Group constantly invests in innovation and enhancements, in line with its guiding principle of offering customers continuous improvements in all lines of business and in product quality (further information can be found in the operational review, in particular in the section on Retail and Corporate Customers).

# GROUP NON-FINANCIAL STATEMENT

Pursuant to section 267a Austrian Business Code, the HYPO NOE Group is obliged to prepare a consolidated non-financial statement. Under section 243b Austrian Business Code, the parent company HYPO NOE Landesbank für Niederösterreich und Wien AG is also required to prepare such a statement. The disclosures are published in consolidated form below. The non-financial statement was prepared in accordance with statutory provisions, taking into account the 2016 Global Reporting Initiative (GRI) standards (GRI 101: Foundation 2016). Further information will be published at a later date in a separate sustainability report, and is available online at https://www.hyponoe.at/de/ihre-hypo-noe/nachhaltigkeit (German only).

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

## Description of the business model

Since its establishment as a conventional mortgage bank in 1888, the HYPO NOE Group's traditionally low-risk business model has consistently proven its worth. The business model is continuously enhanced by means of innovative product solutions, especially in the public sector and real estate businesses.

As a publicly owned banking group, the HYPO NOE Group has special responsibilities and is committed to transparency. The mission statement encapsulates a philosophy that has developed over more than 130 years, and places a strong emphasis on our reliability and stability as a partner to our customers and employees.

### PRODUCTS AND SERVICES

The HYPO NOE Group is principally active in its core market of Lower Austria and Vienna, as well as in the rest of Austria and in selected countries in the neighbouring CEE region. The Group's aspiration and mission is to act as a secure and reliable partner to its public sector, real estate, retail and corporate clients. The product portfolio focuses on finance for hard and social infrastructure, as well as real estate and corporate customers, and commercial and non-profit housing developers. HYPO NOE Landesbank has 27 branches in Lower Austria and Vienna, serving more than 80,000 customers.

### RATINGS

With a solid A/A-1 issuer rating with a positive outlook from Standard & Poor's, HYPO NOE Landesbank is among the best-rated and therefore most secure banks in Austria. Moody's high Aa1 ratings on the Bank's public sector and mortgage cover pools have also remained unchanged. With regard to sustainability, the C rating with Prime status from ISS-oekom is testimony to HYPO NOE Landesbank's position as one of the leaders in the sector.

## Sustainability in the Group's core business

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

Inclusion criteria enshrined in the ethical guidelines and business principles are intended to promote business activities in areas that the Group believes generate the largest benefits for society, while exclusion criteria help to identify sectors where the Bank chooses not to operate, in the interest of social responsibility. These guidelines, which also form part of the Group's credit risk management manual, are available online at https://www.hyponoe.at/de/ihre-hypo-noe/nachhaltigkeit (German only).

### A PARTNER FOR SUSTAINABLE INVESTMENT

With regard to sustainable investment, the HYPO NOE Group works with partners that enable it to offer environmentally sound and ethical investments in selected funds. The Group has organised a series of training courses and product information events in collaboration with its partners, in order to make sustainable investment opportunities accessible to a wider audience. Initial success in this respect was reflected in the level of investment in sustainable funds, which exceeded EUR 34m at the end of the 2018 financial year.

## Environment

As the bank for the state of Lower Austria and one of Austria's leading businesses, the HYPO NOE Group has a responsibility to finance investments in climate protection and to play a pioneering role in terms of the environmental impact of its operations. To this end, the Group provides transparent information on its environmental footprint, and implements measures aimed specifically at reducing its ecological impact. Building infrastructure management and employees' use of transport have the most significant environmental effect.

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

In order to emphasise its dedication to meeting domestic and international climate goals, the Group is currently in the final stages of preparing an environmental and climate strategy (building on the current energy strategy) under which it commits to achieving specifically defined, ambitious targets. Introduction of an ISO 14001-compliant environmental management system is part of this strategy.

### FOCUS ON ENERGY EFFICIENCY

HYPO NOE's St. Pölten headquarters features state-of-the-art energy-efficiency measures and meets its own electricity requirements by means of a photovoltaic array that produced over 36,000 kWh of zero-emission power in 2018.

The Group's innovative, low-energy head office has received the klimaaktiv silver award, as well as Green Building certification from the EU. Like all of the HYPO NOE Group's offices and branches, the headquarters only uses renewable electricity.

The Group's commitment to protecting the environment has also been recognised in the form of Quality Austria certification for successful implementation of the ISO 50001 standard. The decisive factor in this regard was the newly introduced, Group-wide energy strategy, which is geared towards achieving systematic improvements in internal energy efficiency. An in-house "energy team" was set up in the course of implementing the energy management system, with a view to driving forward continuous improvement processes and enhancing reporting structures. Further details are available online at https://www.hyponoe.at/de/ihre-hypo-noe/nachhaltigkeit/energieeffizienz (German only).

### CLIMATE-FRIENDLY MOBILITY

With a view to building up "the vehicle fleet of the future", the HYPO NOE Group aims to significantly reduce the environmental impact of business-related travel, in particular on frequently used routes between Lower Austria and Vienna. A car policy specifically promotes the purchase of low-emission company cars. The fleet currently includes four electric vehicles. In 2017, five rapid-charging stations were installed at the Group's St. Pölten headquarters, and a charging station is also available free of charge for event guests and customers. This strong commitment was reflected in the achievement of project partner status for the klimaaktiv mobil action programme in June 2017.

## Social and employee-related matters

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

### PRINCIPLES AND GUIDELINES FOR EQUITABLE COLLABORATION

The HYPO NOE Group's market conduct and its dealings with customers and employees are governed by its code of conduct. The Group is also committed to complying with the International Labour Organisation's (ILO) international labour standards. Active cooperation with the works council, and observing the rights of employees and trade unions are a matter of course at the Group. In order to avoid gender pay gaps, in 2018 HYPO NOE Landesbank decided to participate in the Equal Pay consultation programme.

### TRAINING AND DEVELOPMENT

Staff and managers receive regular, reasoned feedback on their development as part of the employee development and performance appraisal. Employees agree further training measures with their line manager in the course of the appraisal. In 2018, HYPO NOE Group employees completed a total of 2,646 days of training (2017: 1,982 days). Staff training and development is a leading priority for the Group, with an emphasis on enhancing professional expertise as well as personal development and team building.

### HEALTH MANAGEMENT

As a responsible employer, the HYPO NOE Group pays particularly close attention to the health and wellbeing of its employees. The Group is dedicated to building a constructive work climate that combines a high degree of personal responsibility with creativity and flexibility.

In this regard, the focus is on training and development, workplace health promotion, maintaining an appropriate work-life balance and securing jobs.

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

#### DISABLED ACCESSIBILITY/ACCESS TO FINANCIAL SERVICES

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

### Respecting human rights

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

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

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

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

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

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

The Group has established an internal feedback and complaints database, into which staff must enter all customer complaints. These are analysed on a regular basis, included in the ombudsman's report and evaluated for relevance to compliance issues. This approach helps to minimise the risk of compromising customer privacy as far as possible. There were no significant complaints or breaches related to the handling of customer data in 2018.

### Anti-corruption and anti-bribery measures

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

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

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

#### ORGANISATIONAL STRUCTURE

The Compliance Office and the Anti-Money Laundering Office – both permanent functions – report directly to the Management Board.

#### INTERNAL COMPLIANCE CODES

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

- Compliance Manual: standard regulations covering all central compliance topics
- Manual for Combating Money Laundering and Terrorism Financing: standard regulations for all processes and measures, including those to prevent money laundering and financing of terrorism
- Sanction Policy: provides an explanation of current international sanctions and clearly describes the Group's policy in this respect

- New product introduction processes: conflicts of interest policy, which covers the subject of securities donations and granting and accepting benefits in accordance with the new Wertpapieraufsichtsgesetz (Securities Supervision Act) 2018.
- Anti-corruption guidelines
- Investment Advice and Rules of Conduct Manual: provides guidance regarding the obligation to act in the best interests of the customer in connection with securities services, among other matters
- Standard Compliance Code (principles of proper compliance; insider laws and market manipulation; guidelines for dealings by bank employees; conflicts of interest and benefits; order execution; principles of proper financial analysis; special regulations for investment companies): voluntary code of practice of the Austrian banking industry, defined in greater detail in the Compliance Manual and other guidance.

**RAISING AWARENESS WITHIN THE GROUP**

The Group has adopted clear internal anti-corruption guidelines and this area forms an integral part of its compliance rules. Every new HYPO NOE Group employee is obliged to complete online compliance and anti-money laundering training courses within four weeks of joining the Group. All new employees also receive face-to-face training as part of their induction. Existing employees must also complete this training at regular intervals. Anti-corruption policy is a core topic in the compliance training, and anti-corruption principles and recommendations are collated and published internally in the HYPO NOE Group Anti-corruption Guidelines. In 2018 all HYPO NOE Landesbank employees participated in mandatory compliance courses (annual refresher courses). This training is intended to raise staff awareness of securities and anti-money-laundering compliance and regulatory matters, with the goal of minimising the risk of breaches of statutory requirements or internal standards. There were no such compliance-related violations during the reporting period.

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

The relevant internal processes must be kept up to date at all times, and are optimised on an ongoing basis. Any amendments are implemented as quickly as possible. Under these processes, all invitations to third-party events must be registered and added to the internal event schedule. Compliance is determined using a defined traffic light system. There were no confirmed incidents of corruption in 2018.

## HYPO NOE GROUP

**Environmental indicators – carbon footprint**

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Material consumption (paper)[1] | kg $CO_2$-e | 14,470 | 15,539 | 26,598 | 32,582 |
| Electricity[2] | kg $CO_2$-e | – | – | – | 780,387 |
| District heating | kg $CO_2$-e | 247,688 | 252,169 | 260,330 | 133,950 |
| Gas heating | kg $CO_2$-e | 140,775 | 142,364 | 175,557 | 87,004 |
| Total vehicle fleet[3] | kg $CO_2$-e | 292,987 | 333,724 | 379,427 | 386,965 |
| Kilometres driven by employees for business purposes using private cars[3] | kg $CO_2$-e | 97,040 | – | – | – |
| Flights | kg $CO_2$-e | 44,872 | 49,885 | 59,149 | 126,019 |
| Rail | kg $CO_2$-e | 3,323 | 2,878 | 3,369 | 1,445 |
| **Total $CO_2$-e** | **kg $CO_2$-e** | **841,154** | **796,559** | **904,430** | **1,548,351** |
| **$CO_2$-e/employee** | **kg $CO_2$-e** | **1,066** | **981** | **1,048** | **1,670** |

[1]Significant reductions in 2017, e.g. advertising materials, Christmas cards and printed stationery; significant reductions also due to more precise accounting options.
[2]Renewable electricity at all locations since 2016, therefore no $CO_2$ emissions recognised.
[3]Total distance covered by employees for business purposes with private cars and natural-gas-powered cars reported for the first time in 2018
$CO_2$-e conversion factors – source: Austrian Federal Environment Agency (2015) and DEFRA (2016, 2017 and 2018)

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Group $CO_2$ data by scope** | | | | | |
| SCOPE 1: Company cars + gas heating | kg $CO_2$-e | 530,802 | 476,088 | 554,984 | 473,969 |
| SCOPE 2: Electricity + district heating | kg $CO_2$-e | 247,688 | 252,169 | 260,330 | 914,337 |
| SCOPE 3: Flights, rail, paper | kg $CO_2$-e | 62,665 | 68,302 | 89,117 | 160,046 |

**Human resource indicators**

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Total employees** | **Head count** | **789** | **812** | **863** | **927** |
| Female | Head count | 344 | 361 | 377 | 403 |
| Male | Head count | 445 | 451 | 486 | 524 |
| **Managers by level** | | | | | |
| Management Board/senior management, total | Head count | 2 | 3 | 3 | 7 |
| Management level 1 (division coordinator/senior management) | Head count | 9 | 3 | 4 | 8 |
| Management level 2 (department/division head) | Head count | 17 | 18 | 29 | 47 |
| Management level 3 (team management) | Head count | 45 | 44 | 29 | 63 |
| Proportion of women on the Management Board | % | 0% | 0% | 0% | 0% |
| Proportion of women on the Supervisory Board | % | 25% | 25% | 17% | 17% |
| Management Board, over 50 years old | % | 100% | 100% | 100% | 100% |
| Supervisory Board, 30-50 years old | Head count | 5 | 5 | 5 | 5 |
| | % | 42% | 42% | 42% | 42% |
| Supervisory Board, over 50 years old | Head count | 7 | 7 | 7 | 7 |
| | % | 58% | 58% | 58% | 58% |
| **Employment breakdown (excl. employees on parental leave)** | | | | | |
| **Full-time employees** | **Head count** | **549** | **569** | **621** | **698** |
| Female | Head count | 163 | 177 | 189 | 223 |
| Male | Head count | 386 | 392 | 432 | 475 |
| **Part-time employees** | **Head count** | **200** | **201** | **191** | **182** |
| Female | Head count | 144 | 147 | 143 | 138 |
| Male | Head count | 56 | 54 | 48 | 44 |

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Employees by category (excluding parental leave)** | | | | | |
| **Managers** | **Head count** | **73** | **68** | **66** | **125** |
| | % | 10% | 9% | 8% | 14% |
| Female | Head count | 15 | 11 | 12 | n/s |
| | % | 21% | 16% | 18% | |
| Male | Head count | 58 | 57 | 54 | |
| | % | 79% | 84% | 82% | |
| Managers under 30 years old | Head count | – | 2 | – | |
| | % | 0% | 3% | 0% | |
| Managers 30-50 years old | Head count | 47 | 41 | 40 | |
| | % | 64% | 60% | 61% | |
| Managers over 50 years old | Head count | 26 | 25 | 26 | |
| | % | 36% | 37% | 39% | |
| **Employees** | **Head count** | **676** | **702** | **746** | **755** |
| | % | 90% | 91% | 92% | 86% |
| Female | Head count | 292 | 313 | 320 | 361 |
| | % | 43% | 45% | 43% | 48% |
| Male | Head count | 384 | 389 | 426 | 519 |
| | % | 57% | 55% | 57% | 69% |
| Under 30 years old | Head count | 92 | 82 | 108 | n/s |
| | % | 14% | 12% | 14% | |
| 30-50 years old | Head count | 421 | 426 | 441 | |
| | % | 62% | 61% | 59% | |
| Over 50 years old | Head count | 163 | 194 | 198 | |
| | % | 24% | 28% | 27% | |
| **New employees and staff turnover (31 Dec.–31 Dec.)** | | | | | |
| **New employees** | **Head count** | **120** | **64** | **89** | **132** |
| | % | 17% | 9% | 11% | 17% |
| Female | Head count | 43 | 25 | 41 | 50 |
| | % | 36% | 39% | 46% | 38% |
| Male | Head count | 77 | 39 | 48 | 82 |
| | % | 64% | 61% | 54% | 62% |
| Under 30 years old | Head count | 43 | 22 | 34 | 54 |
| | % | 36% | 34% | 38% | 41% |
| 30-50 years old | Head count | 66 | 35 | 40 | 72 |
| | % | 55% | 55% | 45% | 55% |
| Over 50 years old | Head count | 11 | 7 | 15 | 6 |
| | % | 9% | 11% | 17% | 5% |

New employees and employees leaving are calculated using the Schlüter formula.

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Employees leaving** | **Head count** | **120** | **115** | **146** | **133** |
| | % | 13% | 12% | 14% | 13% |
| Female | Head count | 51 | 40 | 58 | 61 |
| | % | 43% | 35% | 40% | 46% |
| Male | Head count | 69 | 75 | 88 | 72 |
| | % | 58% | 65% | 60% | 54% |
| Under 30 years old | Head count | 28 | 29 | 38 | 45 |
| | % | 23% | 25% | 26% | 34% |
| 30-50 years old | Head count | 64 | 61 | 80 | 75 |
| | % | 53% | 53% | 55% | 56% |
| Over 50 years old | Head count | 28 | 25 | 28 | 13 |
| | % | 23% | 22% | 19% | 10% |

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

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Training** | | | | | |
| **Training days, total** | **Days** | **2,646** | **1,982** | **1,761** | **2,354** |

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

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Total sick leave** | | | | | |
| **Total sick leave** | **Days** | **6,316** | **6,723** | **6,819** | **8,354** |
| Female | Days | 2,967 | 3,444 | 3,128 | 4,060 |
| Male | Days | 3,349 | 3,279 | 3,691 | 4,294 |
| Average days of sick leave per employee | Days | 8 | 8 | 8 | 9 |
| Occupational accidents | Total | 10 | 5 | 10 | 6 |

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

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Employee compliance/anti-corruption training** | | | | | |
| Proportion of employees taking part in training courses, incl. refresher courses | % | 100% | 100% | 100% | 100% |

## HYPO NOE LANDESBANK

**Environmental indicators – carbon footprint**

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Material consumption (paper)[1] | kg $CO_2$-e | 11,059 | 11,769 | 19,849 | 24,471 |
| Electricity[2] | kg $CO_2$-e | – | – | – | 586,121 |
| District heating | kg $CO_2$-e | 189,297 | 190,990 | 194,267 | 100,605 |
| Gas heating | kg $CO_2$-e | 107,589 | 107,825 | 131,006 | 65,345 |
| Total vehicle fleet[3] | kg $CO_2$-e | 223,917 | 255,052 | 289,980 | 295,741 |
| Kilometres driven by employees for business purposes using private cars[3] | kg $CO_2$-e | 74,163 | – | – | – |
| Flights | kg $CO_2$-e | 34,294 | 37,782 | 44,139 | 94,648 |
| Rail | kg $CO_2$-e | 2,540 | 2,180 | 2,514 | 1,085 |
| **Total $CO_2$-e** | **kg $CO_2$-e** | **642,859** | **603,305** | **674,916** | **1,162,911** |
| **$CO_2$-e/employee** | **kg $CO_2$-e** | **815** | **981** | **1,048** | **1,647** |

[1] Significant reductions in 2017, e.g. advertising materials, Christmas cards and printed stationery; significant reductions also due to more precise accounting options.
[2] Renewable electricity at all locations since 2016, therefore no $CO_2$ emissions recognised.
[3] Total distance covered by employees for business purposes with private cars and natural-gas-powered cars reported for the first time in 2018
$CO_2$-e conversion factors - source: Austrian Federal Environment Agency (2015) and DEFRA (2016, 2017 and 2018)

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Group $CO_2$ data by scope** | | | | | |
| SCOPE 1: Company cars + gas heating | kg $CO_2$-e | 405,670 | 360,584 | 414,148 | 355,981 |
| SCOPE 2: Electricity + district heating | kg $CO_2$-e | 189,297 | 190,990 | 194,267 | 686,725 |
| SCOPE 3: Flights, rail, paper | kg $CO_2$-e | 47,892 | 51,731 | 66,502 | 120,205 |

**Human resource indicators**

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Total employees** | **Head count** | **603** | **615** | **644** | **706** |
| Female | Head count | 281 | 295 | 301 | 333 |
| Male | Head count | 322 | 320 | 343 | 373 |
| **Managers by level** | | | | | |
| Management Board/senior management, total | Head count | 2 | 3 | 3 | 4 |
| Management level 1 (division coordinator/senior management) | Head count | 9 | 3 | 4 | 6 |
| Management level 2 (department/division head) | Head count | 14 | 16 | 26 | 41 |
| Management level 3 (team management) | Head count | 43 | 38 | 24 | 48 |
| Proportion of women on the Management Board | % | 0% | 0% | 0% | 0% |
| Proportion of women on the Supervisory Board | % | 25% | 25% | 17% | 17% |
| Management Board, over 50 years old | % | 100% | 100% | 100% | 100% |
| Supervisory Board, 30-50 years old | Head count | 5 | 5 | 9 | 9 |
| | % | 42% | 42% | 38% | 38% |
| Supervisory Board, over 50 years old | Head count | 7 | 7 | 15 | 15 |
| | % | 58% | 58% | 63% | 63% |

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Employment breakdown (excl. employees on parental leave)** | | | | | |
| **Full-time employees** | **Head count** | **402** | **409** | **441** | **520** |
| Female | Head count | 128 | 137 | 143 | 185 |
| Male | Head count | 274 | 272 | 298 | 335 |
| **Part-time employees** | **Head count** | **165** | **169** | **157** | **147** |
| Female | Head count | 119 | 125 | 118 | 112 |
| Male | Head count | 46 | 44 | 39 | 35 |
| **Employees by category (excluding parental leave)** | | | | | |
| **Managers** | **Head count** | **68** | **63** | **61** | **100** |
| | % | 12% | 11% | 10% | 15% |
| Female | Head count | 14 | 10 | 11 | 18 |
| | % | 21% | 16% | 18% | 18% |
| Male | Head count | 54 | 53 | 50 | 82 |
| | % | 79% | 84% | 82% | 82% |
| Managers under 30 years old | Head count | – | 2 | – | 1 |
| | % | 0% | 3% | 0% | 1% |
| Managers 30-50 years old | Head count | 44 | 42 | 45 | 75 |
| | % | 65% | 67% | 74% | 75% |
| Managers over 50 years old | Head count | 24 | 19 | 16 | 24 |
| | % | 35% | 30% | 26% | 24% |
| **Employees** | **Head count** | **499** | **515** | **537** | **567** |
| | % | 88% | 89% | 90% | 85% |
| Female | Head count | 233 | 252 | 250 | 279 |
| | % | 47% | 49% | 47% | 49% |
| Male | Head count | 266 | 263 | 287 | 288 |
| | % | 53% | 51% | 53% | 51% |
| Under 30 years old | Head count | 65 | 59 | 80 | 109 |
| | % | 13% | 11% | 15% | 19% |
| 30-50 years old | Head count | 319 | 336 | 345 | 357 |
| | % | 64% | 65% | 64% | 63% |
| Over 50 years old | Head count | 115 | 120 | 112 | 101 |
| | % | 23% | 23% | 21% | 18% |

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **New employees and staff turnover (31 Dec.-31 Dec.)** | | | | | |
| **New employees** | **Head count** | **78** | **35** | **41** | **91** |
| | % | 15% | 6% | 7% | 15% |
| Female | Head count | 28 | 13 | 20 | 41 |
| | % | 36% | 37% | 49% | 45% |
| Male | Head count | 50 | 22 | 21 | 50 |
| | % | 64% | 63% | 51% | 55% |
| Under 30 years old | Head count | 33 | 15 | 16 | 41 |
| | % | 42% | 43% | 39% | 45% |
| 30-50 years old | Head count | 40 | 18 | 21 | 49 |
| | % | 51% | 51% | 51% | 54% |
| Over 50 years old | Head count | 5 | 2 | 4 | 1 |
| | % | 6% | 6% | 10% | 1% |

New employees and employees leaving are calculated using the Schlüter formula.

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Employees leaving** | **Head count** | **83** | **68** | **83** | **97** |
| | % | 12% | 10% | 11% | 12% |
| Female | Head count | 36 | 27 | 35 | 46 |
| | % | 43% | 40% | 42% | 47% |
| Male | Head count | 47 | 41 | 48 | 51 |
| | % | 57% | 60% | 58% | 53% |
| Under 30 years old | Head count | 20 | 16 | 21 | 34 |
| | % | 24% | 24% | 25% | 35% |
| 30-50 years old | Head count | 45 | 42 | 48 | 55 |
| | % | 54% | 62% | 58% | 57% |
| Over 50 years old | Head count | 18 | 10 | 14 | 8 |
| | % | 22% | 15% | 17% | 8% |

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

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Training** | | | | | |
| **Training days, total** | **Days** | **2,346** | **1,841** | **1,690** | **2,127** |

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

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Total sick leave** | | | | | |
| **Total sick leave** | **Days** | **4,700** | **4,791** | **4,729** | **6,003** |
| Female | Days | 2,534 | 2,708 | 2,468 | 3,399 |
| Male | Days | 2,166 | 2,083 | 2,261 | 2,604 |
| Average days of sick leave per employee | Days | 8 | 8 | 7 | 9 |
| Occupational accidents | Total | – | 1 | 5 | 3 |

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

| Indicator/description | Unit | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Employee compliance/anti-corruption training** | | | | | |
| Proportion of employees taking part in training courses, incl. refresher courses | % | 100% | 100% | 100% | 100% |

# GROUP OUTLOOK FOR 2019

## Outlook for Group performance

The HYPO NOE Group has a strong regional focus on its core Lower Austrian and Viennese market, and sees itself as a secure and reliable partner to the public sector as well as real estate, retail and corporate customers.

Providing finance to the public sector remains the central pillar of the HYPO NOE Group's business model. In order to increase the granularity of the financing portfolio, the Group will continue the steps taken over the last few years to expand the customer base to include local governments in Lower Austria and neighbouring federal states. In parallel, in view of changing finance needs, the Group will press on with developing special financing models, such as operating-lease and public-private-partnership arrangements. Implementation will take place at Group level, mainly in collaboration with HYPO NOE Leasing GmbH.

The HYPO NOE Group is responding to the growing trend towards home ownership in its core Lower Austrian and Viennese market by developing flexible financing solutions aimed at non-profit and commercial housing developers. As a result, in the coming years the Group expects the volume of finance provided to housing developers as well as for residential and commercial properties in Austria to grow. Finance services will be complemented by further expanded payment services and investment solutions for housing developers.

The Group will continue to pursue the firmly established strategy for growing the Corporate Customers Division in the coming reporting periods. This will involve redoubling efforts to acquire new customers and extending the product portfolio, including for subsidised loans and export finance. The division's new structure, with departments serving small and medium-sized enterprises and large corporates, and a specialised department for structuring and product solutions will provide robust support for this strategy. Collaboration with HYPO NOE Versicherungsservice GmbH, the Group's experts on all aspects of insurance for businesses, is designed to generate additional earnings and further extend the earnings base.

For retail customers, the focus will remain on offering personal advice. The new concept for the Bank's branches, which provides space for detailed consultation, will be rolled out to further locations. Our core competence in mortgages remains the central focus as far as products are concerned. Supplementary product solutions are evaluated on a continuous basis, and where necessary these will be introduced in cooperation with leading providers. This is in line with our objective to further expand the services business. At the same time, digital services will be systematically expanded. In 2019 the Bank will introduce a multi-banking solution and new mobile payment processes, as well as additional options for signing up for products online and interacting with customers via the internet banking platform.

HYPO NOE Immobilien Beteiligungsholding GmbH, which takes care of the Group's real estate services business, will continue to offer construction management, property management, brokerage, facility management and project development services. Internal structures will be made leaner and service quality will be further improved. To this end, in 2018 a strategic realignment and management restructuring was carried out at the company. Its customer focus is core Lower Austrian businesses, local authorities and, first and foremost, the State of Lower Austria itself.

The Bank will carry out further issues in the covered bond and senior unsecured segments in 2019, in line with its refinancing needs, and in this regard it can fall back on all commonly used capital market instruments. In addition to this, one of the Group's stated aims is to maintain the high level of deposits following their consistent growth over recent years, and to safeguard a widely diversified refinancing structure.

In 2019 the HYPO NOE Group will again upgrade its infrastructure, processes and methodologies, in order to meet current and future regulatory requirements (including Basel IV, IFRS 9, MREL, NSFR, funding plans, the leverage ratio and rating models), and to ensure that internal risk control systems remain compatible with the Group's permitted risk appetite and its business objectives.

Alongside activities focused on the services offered by the Group, going forward the aim is to achieve further efficiency gains and continue to enhance the quality of the Group's assets. The Group aims to maintain its strong capitalisation. The State of Lower Austria's long-term perspective as the Group's sole owner will continue to provide firm foundations for the sustained implementation of this strategy.

## Economic environment

As long as the current political uncertainties weighing on the European economy persist – primarily the trade dispute between the USA and China, and the UK's impending exit from the EU – growth prospects remain muted. The current expectation is that the decision-makers involved in these disputes will arrive at compromises before their respective national economies are seriously damaged. In this case, we can expect a temporary uptick in growth in Europe in 2019.

Investment has recently dipped from its high level as companies have adapted their investment plans in light of political risk. Private consumption continues to underpin growth. Consistently favourable conditions on the labour market have resulted in wage growth, and lower inflation will support the increase in real incomes. Moderately relaxed fiscal policy in the euro zone could also help to promote growth. It is also expected that the major central banks will continue to focus on stimulating the economy, in light of gloomy growth prospects and low inflationary pressure. For this reason, market interest rates are unlikely to remain flat in 2019.

The HYPO NOE Group's core markets are currently at the tail end of a period of relatively high growth, though growth will probably exceed the euro zone average in the coming years. Growth in Austria is predicted to slow in 2019 and 2020, to 2.0% and 1.9% respectively. The CEE region will see economic growth of 3.5% in 2019 – half a percentage point lower than in 2018.

Private consumption and gross fixed capital formation will continue to be the main drivers of growth. In Austria, the introduction of the Familienbonus tax relief programme for families and comparatively high wage settlements should give a fillip to private consumption. Following exceptionally strong growth in 2019, investment is expected to taper off, although the pace of increases will remain solid. Growth rates for housing construction investment will remain close to 2018 levels, at around the 3% mark, and will continue to provide an important stimulus. This is consistent with the Eurostat business confidence indicator for the construction sector, which reached a record high in December 2018. In spite of a slight reduction compared with previous years, Austria's exporters can expect significant annual growth of 4% from 2019 to 2021. According to Eurostat, unemployment will fall to a low 4.7% in 2019 and 2020, while inflation should hold at around 2.1%.

Following the first year with a balanced budget in 2018, from 2019 increasing budget surpluses of up to 0.5% are expected. Public debt as a proportion of GDP is forecast to fall from 78.3% in 2017 to 64.8% in 2021.

St. Pölten, 18 February 2019

The Management Board

**Wolfgang Viehauser**
Management Board Member
Markets and Spokesman

**Udo Birkner**
Management Board Member
Finance, Risk & Operations

Photo: picturedesk.com/ImageBROKER/Christian Handl

# Peil-stein

**A CLIMBERS' PARADISE IN THE VIENNA WOODS**

The summit of the Kalkberg hill in the southern Wienerwald is only 716m above sea level. But negotiating the climb is still tricky. There are more than 800 climbing routes with various levels of difficulty on the hill's steep faces, and an incredible 6,000 bolts drilled into the rock for securing safety ropes. Those looking for a more relaxed ascent can reach the peak and the lookout point by one of the numerous hiking paths. One way or another, at the top, adventurers can look forward to a spectacular view, not to mention a serving of hearty lentils, juicy roast pork or curd cheese strudel.

# Consolidated financial statements

OF HYPO NOE LANDESBANK FÜR NIEDERÖSTERREICH UND WIEN AG
IN ACCORDANCE WITH IFRS FOR THE YEAR ENDED 31 DECEMBER 2018

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| Profit or loss (EUR '000) | (Notes) | 2018 | 2017 | * | Change |
|---|---|---|---|---|---|
| Interest and similar income not measured using the effective interest method | (5.1) | 218,442 | N/A | | N/A |
| Interest and similar income measured using the effective interest method | (5.1) | 240,769 | N/A | | N/A |
| Interest and similar income | (5.1) | N/A | 499,864 | * | N/A |
| Interest and similar expense | (5.2) | -347,615 | -391,034 | | 43,419 |
| Dividend income | | 336 | 31 | | 305 |
| **Net interest income** | | **111,933** | **108,861** | | **3,072** |
| Risk provisions | (5.7) | N/A | 9,100 | | N/A |
| **Net interest income after net gains/losses on risk provisions** | | **N/A** | **117,961** | | **N/A** |
| Fee and commission income | | 17,843 | 18,871 | | -1,028 |
| Fee and commission expense | | -3,052 | -3,490 | | 438 |
| **Net fee and commission income** | **(5.3)** | **14,791** | **15,381** | | **-590** |
| Measurement gains/losses | | 14,233 | N/A | | N/A |
| Gains or losses arising from the derecognition of financial assets | | – | N/A | | N/A |
| **Net gains on financial assets and liabilities** | **(5.4)** | **14,233** | **N/A** | | **N/A** |
| Net trading income | (5.4) | N/A | -509 | | N/A |
| Net gains or losses on available-for-sale financial assets | (5.4) | N/A | -163 | | N/A |
| Net gains or losses on financial assets designated as at fair value through profit or loss | (5.4) | N/A | 57 | | N/A |
| Net gains or losses on hedges | (5.4) | N/A | -5,369 | | N/A |
| Net other operating income | (5.5) | 9,753 | 30,523 | * | -20,770 |
| Administrative expenses | (5.6) | -112,772 | -115,806 | | 3,034 |
| Impairment losses/gains on financial assets – IFRS 9 ECL | (5.7) | 10,590 | N/A | | N/A |
| Net losses on investments accounted for using the equity method | (5.8) | -534 | -3,311 | * | 2,777 |
| **Profit before tax** | | **47,992** | **38,764** | | **9,228** |
| Income tax expense | (5.9) | -11,548 | -9,658 | | -1,890 |
| **Profit for the year** | | **36,444** | **29,106** | | **7,338** |

*The previous year's figures include restatements in accordance with IAS 8 (see Note 2 Accounting standards).

Application of IFRS 9 resulted in the introduction of new measurement categories for financial assets and liabilities. Paragraphs 4 and 5 IFRS 9, in particular, contain extensive changes as compared to IAS 39. Consequently, the results from the reporting period are not comparable with those of the preceding period.

| Other comprehensive income (EUR '000) | | 2018 | 2017 | * |
|---|---|---|---|---|
| **Profit for the year** | | **36,444** | **29,106** | |
| **Items that will not be reclassified to profit or loss** | | | | |
| Change in equity instruments measured at fair value through other comprehensive income (FVOCI) (before tax) | | 130 | N/A | |
| Change in actuarial gains or losses (before tax) | | 2,366 | 391 | |
| Change in deferred tax | | -624 | -98 | |
| **Items that may be reclassified subsequently to profit or loss** | | | | |
| Change in available-for-sale financial instruments (before tax) | | N/A | 7,611 | * |
| Change in debt instruments measured at FVOCI (before tax) | | -11,029 | N/A | |
| Change in hedges (time value, forward elements and foreign currency basis spread; before tax) | | -103 | N/A | |
| Exchange differences on translating foreign operations accounted for using the equity method (before tax) | | 70 | – | |
| Change in deferred tax | | 2,765 | -1,903 | |
| **Other comprehensive income** | | **-6,423** | **6,002** | |
| **Total comprehensive income** | | **30,021** | **35,108** | |
| Non-controlling interests | (5.10) | -72 | -166 | |
| **Total comprehensive income attributable to owners of the parent** | | **29,949** | **34,942** | |

*The previous year's figures include restatements in accordance with IAS 8 (see Note 2 Accounting standards).

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Application of IFRS 9 resulted in the introduction of new measurement categories for financial assets and liabilities. Paragraphs 4 and 5 IFRS 9, in particular, contain extensive changes as compared to IAS 39. Consequently, the results from the reporting period are not comparable with those of the preceding period.

| Assets (EUR '000) | (Notes) | 31 Dec. 2018 | 31 Dec. 2017 | * | 1 Jan. 2017 |
|---|---|---|---|---|---|
| Cash and balances at central banks | (6.1) | 417,130 | 456,197 | | 164,587 |
| Financial assets – HFT | (6.2) | 428,983 | N/A | | N/A |
| Assets held for trading | (6.2) | N/A | 476,252 | | 555,293 |
| Financial assets – mandatorily FVTPL | (6.3) | 262,475 | N/A | | N/A |
| Financial assets designated as at fair value through profit or loss | (6.3) | N/A | 19,474 | | 20,340 |
| Financial assets – FVOCI | (6.4) | 760,216 | N/A | | N/A |
| Available-for-sale financial assets | (6.4) | N/A | 1,594,189 | * | 1,967,148 |
| Financial assets – AC | (6.5) | 11,640,675 | N/A | | N/A |
| Loans and advances to banks | (6.5) | N/A | 860,821 | | 998,347 |
| Loans and advances to customers | (6.5) | N/A | 10,230,232 | | 10,854,932 |
| Risk provisions | (5.7) | N/A | -75,270 | | -97,462 |
| Positive fair value of hedges (hedge accounting) | (6.6) | 377,134 | 405,229 | | 483,215 |
| Investments accounted for using the equity method | (6.7) | 23,148 | 24,225 | * | 29,922 |
| Investment property | (6.8) | 39,608 | 41,382 | | 54,117 |
| Intangible assets | (6.9) | 755 | 932 | | 918 |
| Property, plant and equipment | (6.10) | 66,779 | 69,672 | | 77,525 |
| Current tax assets | (6.12) | 12,147 | 20,659 | | 20,333 |
| Deferred tax assets | (6.12) | – | 4,076 | | 1,443 |
| Other assets | (6.13) | 31,013 | 226,827 | | 261,393 |
| Non-current assets held for sale (IFRS 5) | (6.14) | – | 12,287 | | – |
| **Total assets** | | **14,060,065** | **14,367,184** | | **15,392,051** |

| Equity and liabilities (EUR '000) | (Notes) | 31 Dec. 2018 | 31 Dec. 2017 | * | 1 Jan. 2017 |
|---|---|---|---|---|---|
| Financial liabilities – HFT | (6.15) | 391,428 | N/A | | N/A |
| Liabilities held for trading | (6.15) | N/A | 432,716 | | 502,954 |
| Financial liabilities – FVO | (6.16) | 3,500 | N/A | | N/A |
| Financial liabilities – AC | (6.17) | 12,106,624 | N/A | | N/A |
| Deposits from banks | (6.17) | N/A | 974,918 | * | 1,462,298 |
| Deposits from customers | (6.17) | N/A | 4,049,846 | | 3,847,855 |
| Debts evidenced by certificates | (6.17) | N/A | 7,283,886 | * | 7,698,831 |
| Negative fair value of hedges (hedge accounting) | (6.18) | 665,173 | 705,616 | | 793,697 |
| Provisions | (6.19) | 58,711 | 40,908 | | 50,155 |
| Current tax liabilities | (6.20) | 13,574 | 19,349 | | 20,127 |
| Deferred tax liabilities | (6.20) | 27,696 | 43,371 | * | 36,955 |
| Other liabilities | (6.21) | 128,507 | 139,845 | | 129,430 |
| Supplementary capital | (6.22) | 1,453 | 1,453 | | 202,381 |
| Equity | (6.23) | 663,398 | 675,276 | * | 647,368 |
| Equity attributable to owners of the parent | | 655,420 | 666,891 | * | 638,949 |
| Non-controlling interests | | 7,978 | 8,385 | | 8,419 |
| **Total equity and liabilities** | | **14,060,065** | **14,367,184** | | **15,392,051** |

*The previous year's figures include restatements in accordance with IAS 8 (see Note 2 Accounting standards).

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| 31 Dec. 2018, EUR '000 | 31 Dec. 2017 (IAS 39) | IFRS 9 remeasurement | 1 Jan. 2018 (IFRS 9) | Profit for the year | Other comprehensive income | Dividends paid | 31 Dec. 2018 (IFRS 9) |
|---|---|---|---|---|---|---|---|
| Share capital | 51,981 | – | 51,981 | – | – | – | 51,981 |
| Capital reserves | 191,824 | – | 191,824 | – | – | – | 191,824 |
| Retained earnings | 381,321 | -15,953 | 365,368 | 36,372 | – | -3,500 | 398,240 |
| **Other reserves constituted from:** | | | | | | | |
| Actuarial gains and losses | -5,191 | – | -5,191 | – | 1,775 | – | -3,416 |
| Available-for-sale financial instruments | 47,010 | -47,010 | N/A | N/A | N/A | N/A | N/A |
| FVOCI debt instruments | N/A | 24,153 | 24,153 | – | -8,272 | – | 15,882 |
| FVOCI equity instruments | N/A | 889 | 889 | – | 98 | – | 986 |
| Hedges (time value, forward elements and foreign currency basis spread) | N/A | – | – | – | -77 | – | -77 |
| Currency translation | -53 | – | -53 | – | 53 | – | – |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | **666,891** | **-37,920** | **628,971** | **36,372** | **-6,423** | **-3,500** | **655,420** |
| Non-controlling interests | 8,385 | -6 | 8,379 | 72 | – | -472 | 7,978 |
| **EQUITY** | **675,276** | **-37,926** | **637,350** | **36,444** | **-6,423** | **-3,972** | **663,398** |

| 31 Dec. 2017, EUR '000 | 1 Jan. 2017 (IAS 39) | Profit for the year | Other comprehensive income | Dividends paid | 31 Dec. 2017 (IAS 39) | Retrospective adjustment | 31 Dec. 2017 (IAS 39, adjusted) |
|---|---|---|---|---|---|---|---|
| Share capital | 51,981 | – | – | – | 51,981 | – | 51,981 |
| Capital reserves | 191,824 | – | – | – | 191,824 | – | 191,824 |
| Retained earnings | 359,380 | 30,953 | – | -7,000 | 383,334 | -2,013 | 381,321 |
| IAS 19 reserve | -5,484 | – | 293 | – | -5,191 | – | -5,191 |
| Available-for-sale reserve | 41,301 | – | 4,820 | – | 46,121 | 888 | 47,010 |
| FVOCI debt instrument reserve | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| FVOCI equity instrument reserve | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Remeasurement reserve – hedge (time value, forward elements and foreign currency basis spread) | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Currency translation reserve | -53 | – | – | – | -53 | – | -53 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | **638,949** | **30,953** | **5,113** | **-7,000** | **668,016** | **-1,125** | **666,891** |
| Non-controlling interests | 8,419 | 166 | – | -200 | 8,385 | – | 8,385 |
| **EQUITY** | **647,368** | **31,119** | **5,113** | **-7,200** | **676,401** | **-1,125** | **675,276** |

No after-tax gains on FVOCI debt instruments (available-for-sale financial instruments, after tax as at 31 Dec. 2017: EUR 6thsd) were recycled from other comprehensive income to profit or loss.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017* |
|---|---|---|
| **Profit for the year (before non-controlling interests)** | **36,444** | **29,106** |
| Non-cash changes and non-cash components attributable to assets and liabilities due to operating activities recognised in profit before tax | | |
| Amortisation, depreciation, impairment and write-ups on property, plant and equipment, intangible assets and investment property | 6,475 | 8,566 |
| Allocations to and reversals of provisions and risk provisions | 8,639 | -2,831 |
| Losses on disposal of financial assets and property, plant and equipment | -8,317 | -2,978 |
| Net measurement losses on financial assets and liabilities | -13,652 | N/A |
| Other adjustments | -9,126 | -61,364 |
| Changes in assets and liabilities due to operating activities after adjustments for non-cash components | | |
| Financial assets – AC | -75,380 | N/A |
| Loans and advances to banks | N/A | 137,596 |
| Loans and advances to customers | N/A | 472,372 |
| Financial assets – mandatorily FVTPL | 113,410 | N/A |
| Financial assets – FVOCI | 88,546 | N/A |
| Available-for-sale financial assets | N/A | 379,857 |
| Other operating assets | 15,904 | 116,708 |
| Financial liabilities – AC | -188,735 | N/A |
| Deposits from banks | N/A | -89,119 |
| Deposits from customers | N/A | 222,279 |
| Debts evidenced by certificates | N/A | -674,557 |
| Other operating liabilities | -15,671 | 2,313 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | **-41,463** | **537,948** |
| Proceeds from sale of/redemption of: | | |
| Equity investments | – | 100 |
| Property, plant and equipment, intangible assets and investment property | 235 | 13,534 |
| Purchase of: | | |
| Equity investments | -108 | -17 |
| Property, plant and equipment, intangible assets and investment property | -2,397 | -1,742 |
| Proceeds from disposal of subsidiaries | 8,641 | – |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | **6,370** | **11,874** |
| Dividends paid | -3,972 | -7,200 |
| Subordinated debt – outflows | – | -200,786 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | **-3,972** | **-207,986** |
| | | |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **-2** | **-50,228** |

*The previous year's figures include restatements in accordance with IAS 8 (see Note 2 Accounting standards).

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017* |
|---|---|---|
| **CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD** | **456,197** | **164,587** |
| Cash flows from operating activities | -41,463 | 537,948 |
| Cash flows from investing activities | 6,370 | 11,874 |
| Cash flows from financing activities | -3,972 | -207,986 |
| Effect of exchange rate changes on cash and cash equivalents | -2 | -50,228 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **417,130** | **456,197** |
| **PAYMENTS FOR TAXES, INTEREST AND DIVIDENDS (included in cash flows from operating activities)** | | |
| Income taxes refunded/paid | -2,835 | -11,192 |
| Interest received | 474,636 | 500,090 |
| Interest paid | -362,246 | -391,294 |
| Dividends on FVOCI investments received | 336 | N/A |
| Dividends on AFS investments received | N/A | 810 |
| Dividends on FVTPL investments received | 234 | N/A |
| Dividends received from associates | 482 | 566 |
| Dividends received from joint ventures | 167 | 297 |

*The previous year's figures include restatements in accordance with IAS 8 (see Note 2 Accounting standards).

## CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

| EUR '000 | IFRS 9 1 Jan. 2018 | Cash flows | Non-cash changes | IFRS 9 31 Dec. 2018 |
|---|---|---|---|---|
| Subordinated debt | 1,453 | – | – | 1,453 |
| **Liabilities from financing activities** | **1,453** | **–** | **–** | **1,453** |

| EUR '000 | IAS 39 1 Jan. 2017 | Cash flows | Non-cash changes | IAS 39 31 Dec. 2017 |
|---|---|---|---|---|
| Subordinated debt | 202,381 | -200,786 | -142 | 1,453 |
| **Liabilities from financing activities** | **202,381** | **-200,786** | **-142** | **1,453** |

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

# Thaya-tal

Photo: picturedesk.com/Rainer Mirau

**BOUNDLESS BEAUTY**

There are still a few signs saying "Danger of death" – remnants of the time when the Iron Curtain ran along this river valley between the Czech Republic and Lower Austria. Here in no man's land, fauna and flora flourished, with barely any human interference. To preserve the area's biodiversity after the border was opened, a national park was established here in 2000. When it rains, countless fire salamanders crawl out of their hiding places, while in fine weather the water snakes bask in the sunshine. And with any luck, you might spy an otter catching a fish.

# Notes

TO THE CONSOLIDATED FINANCIAL
STATEMENTS AND GOVERNING BODIES

# 1. GENERAL INFORMATION

**HYPO NOE Landesbank für Niederösterreich und Wien AG**, domiciled at Hypogasse 1, 3100 St. Pölten, Austria is the ultimate parent of the companies included in consolidation. It is registered in the register of companies under FN 99073x. The former HYPO NOE Gruppe Bank AG, into which the retail and housing finance business of former wholly-owned subsidiary HYPO NOE Landesbank AG was integrated, was renamed HYPO NOE Landesbank für Niederösterreich und Wien AG with effect from 23 September 2017. Reporting is on five segments: Public Sector, Real Estate Customers, Retail and Corporate Customers, Treasury & ALM, and Real Estate Services, and reconciliation with consolidated profit is reported under the Corporate Center.

**HYPO NOE Landesbank für Niederösterreich und Wien AG** is the oldest and one of the largest Austrian Landesbanken (state banks), and provides a comprehensive range of financial and real estate services in collaboration with its subsidiaries. The Bank serves as an expert partner to public sector, real estate, retail and corporate clients in Austria. Its core market comprises Lower Austria and Vienna, Austria's other federal states and selected neighbouring CEE countries. The HYPO NOE Group's 27 branches in Lower Austria and Vienna provide universal banking services to private, self-employed and corporate customers.

In tandem with **HYPO NOE Leasing GmbH**, the Group's parent, **HYPO NOE Landesbank für Niederösterreich und Wien AG**, mainly serves large state and local government clients. The strategy of **HYPO NOE Immobilien Beteiligungsholding GmbH** and its subsidiaries and associates is geared towards providing services across the entire real estate management value chain. **HYPO NOE Real Consult GmbH** specialises in brokerage, and construction project and property management, while **HYPO NOE First Facility GmbH** is a full-line facility management service provider.

The 2018 consolidated financial statements will be published in Wiener Zeitung on 8 March 2019, and posted in the Investor Relations/Reports section of the Group's website (www.hyponoe.at).

# 2. ACCOUNTING STANDARDS

The consolidated financial statements of the HYPO NOE Landesbank für Niederösterreich und Wien AG Group (the HYPO NOE Group) were drawn up in accordance with section 245a Unternehmensgesetzbuch (Austrian Business Code) and section 59a Bankwesengesetz (Banking Act), as well as Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, and prepared on the basis of the International Financial Reporting Standards (IFRS) 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 International Financial Reporting Interpretations Committee (IFRIC). These financial statements have been prepared in accordance with the IFRS/IAS standards and interpretations thereof adopted and published by the European Union, and applicable to the business activities of the HYPO NOE Group.

**Adjustments and corrections**

Following organisational restructuring and resulting changes in management control logic, the necessary structural changes were made in the presentation of the 2018 annual report; these changes had not been implemented in the 2018 semi-annual financial report.

Henceforth, the consolidated financial statements will be based on the measurement categories set out in IFRS 9 in conjunction with IFRS 7.

In the consolidated statement of comprehensive income, this mainly affects the "Interest and similar income" item, which is now presented in the form of a breakdown by calculation method. Dividends formerly included in net interest income will now be reported separately, while risk provisions – previously also reported under net interest income – will from now on be included in a new item, "Impairment losses/gains on financial assets – IFRS 9 ECL" (see Note 5.7).

In accordance with paragraph 41ff. IAS 8, depreciation of investment properties and rental income from them is recognised under "Net other operating income"; until now, these amounts have been included in net interest income.

A further structural change in the statement of comprehensive income has resulted in the addition of a new item, "Net gains on financial assets and liabilities", which is broken down by measurement gains or losses and by gains and losses arising from the derecognition of financial assets, which is now required by paragraph 82 IAS 1.

The consolidated statement of financial position is also now based on the measurement categories set out in IFRS 9 in conjunction with IFRS 7.

Accordingly, on the assets side, "Loans and advances to customers" and "Loans and advances to banks" are now reported as financial assets, broken down by the measurement categories "mandatorily FVTPL", "FVOCI" and "AC". These measurement categories are based on liquidity. In addition, risk provisions are no longer reported separately in the consolidated statement of financial position, but as a net amount, in accordance with the requirements of IFRS 9.

In order to ensure reliable measurement, a retrospective adjustment of AFS instruments that had in some cases previously been recognised at cost was carried out as at 31 December 2017 in accordance with their fair value under IFRS 13. The value in use of an associate was also adjusted retrospectively, again as at 31 December 2017, and the budget/forecast period was reduced to five years in accordance with paragraph 33ff. IAS 36. Retrospective adjustments for two other associates as at 31 December 2017 were made by taking the current financial statements as the measurement base, as the statements used originally in 2017 were 12 months old.

The adjustments on the equity and liabilities side regarding the previously separate reporting of "Deposits from banks", "Deposits from customers" and "Debts evidenced by securities" reflected those made on the assets side: these items are now reported under "Financial liabilities" broken down by IFRS 9 measurement category.

The issue of a tenant-linked bond in a subsidiary was reclassified and recognised under "Debts evidenced by securities" with effect from 31 December 2017; it had previously been recognised under "Deposits from banks".

These adjustments resulted in a total reduction in equity of EUR 1,125thsd. Consequently, equity (incl. non-controlling interests) as at 31 December 2017 fell retrospectively from EUR 676,401thsd to EUR 675,276thsd. The effect on eligible capital, which was corrected to EUR 929thsd, was lessened by a further adjustment in the measurement of investments in the CRR financial statements (due to alignment of the methodologies used in both sets of accounts). However, due to their different risk weightings, the various adjustments had an impact on total RWAs and in turn on the capital requirement (increase of EUR 287thsd). As a consequence, there were minimal changes in the Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR – from 19.89% to 19.84% – and in the fully loaded Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR from 20.17% to 20.12%. Below is the Group's presentation of correction of errors in accordance with IAS 8.

| EUR '000 | 31 Dec. 2017 | Restatement | 31 Dec. 2017 (adjusted) |
|---|---|---|---|
| Available-for-sale financial assets | 1,593,005 | 1,184 | 1,594,189 |
| Investments accounted for using the equity method | 26,238 | -2,013 | 24,225 |
| **Total assets** | **14,368,013** | **-829** | **14,367,184** |
| | | | |
| Deposits from banks | 1,365,168 | -390,250 | 974,918 |
| Debts evidenced by certificates | 6,893,636 | 390,250 | 7,283,886 |
| Deferred tax liabilities | 43,075 | 296 | 43,371 |
| Equity | 676,401 | -1,125 | 675,276 |
| Equity attributable to owners of the parent | 668,016 | -1,125 | 666,891 |
| **Total equity and liabilities** | **14,368,013** | **-829** | **14,367,184** |

## NEW AND AMENDED STANDARDS

**IFRS 15 Revenue from Contracts with Customers**
The accounting standard for the recognition of revenue from contracts entered into effect on 1 January 2018. It does not apply to revenue related to financial instruments, which falls within the scope of IFRS 9. This change has no material effects on the consolidated financial statements. The HYPO NOE Group receives fee and commission income for various customer services. A breakdown of commission income is shown in Note 5.3 Net fee and commission income.

**IAS 1 Presentation of Financial Statements**
With effect from 1 January 2018, under paragraph 82(a) IAS 1 interest revenue calculated using the effective interest method must be stated separately from other interest income in the consolidated statement of comprehensive income.

**IFRS 7 Financial Instruments: Disclosures**
In order to highlight the differences between IFRS 9 and IAS 39, the HYPO NOE Group will apply the revised IFRS 7 in conjunction with IFRS 9 for annual periods beginning on or after 1 January 2018. The changes include:

- Presentation of reconciliation effects
- Qualitative and quantitative information relating to the determination of credit risk, such as the inputs and assumptions used
- Additional and detailed disclosures on hedge accounting

**IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)**
Application is mandatory from 1 January 2018. The HYPO NOE Group is not affected by the amendment.

**Annual Improvements to IFRS Standards, 2014–2016 Cycle**
Application is mandatory from 1 January 2018. The HYPO NOE Group is not affected by the amendment.

**IAS 40 Transfers of Investment Property (Amendments to IAS 40)**
Application is mandatory from 1 January 2018. This amendment did not affect the HYPO NOE Group in the period under review.

**IFRIC 22 Foreign Currency Transactions and Advance Consideration**
Application is mandatory from 1 January 2018. This amendment did not affect the HYPO NOE Group in the period under review.

**IFRS 9 Financial Instruments**
The International Accounting Standards Board published the final version of IFRS 9 Financial Instruments in July 2014; it entered into effect on 1 January 2018. The HYPO NOE Group applied IFRS 9 for the first time as of 1 January 2018. IFRS 9 sets out new classification and measurement approaches for financial assets. These reflect the business models under which assets are held, as well as the characteristics of their cash flows. The effect of first-time application on IFRS equity in the IFRS 9 consolidated statements was EUR -37.9m. The main factors behind this were the impairment recognition required by the standard and the reclassification of the nostro portfolio.

**Classification**
The IFRS 9 measurement categories for financial assets are:

- measured at amortised cost (AC)
- measured at fair value through profit or loss (FVTPL)
- measured at fair value through other comprehensive income (FVOCI)

Based on the measurement category, portfolios are classified according to the business model implemented under an entity's strategy. With only a few exceptions, loans and advances to banks and customers (EUR 10,832,687thsd) – reported previously in accordance with IAS 39 – are measured at amortised cost. The business model test identified only 2.3% (EUR 258,366thsd) of these assets that do not meet the classification criteria (solely payments of principal and interest [SPPI]) or, in the case of fixed interest rates that deviate from the standard, failed the benchmark test, and consequently cannot be carried at amortised cost.

Some of these assets are held for earnings diversification purposes, and to reinvest equity ("hold to collect" business model). However, the majority are liquid assets used to manage the liquidity buffer so as to maintain short- and medium-term liquidity ("hold to collect and sell" business model). In consequence, 40.5% of financial assets in the nostro portfolio (EUR 646,144thsd) are classified as measured at AC, 53.7% (EUR 855,826thsd) as measured at FVOCI, and 5.8% (EUR 92,218thsd) as measured at FVTPL. The HYPO NOE Group has no financial assets measured using the fair value option (FVO).

The Management Board made use of its elective right to classify all equity instruments as financial assets measured at FVOCI under IFRS 9. This was due to the fact that no significant increase in the value of these holdings is to be expected, and such strategic investments are not held for sale.

IFRS 9 generally retains the existing classification method for financial liabilities. Changes in credit risk are reported in other comprehensive income. As at 1 January 2018, the Bank had no liabilities arising from embedded derivatives requiring separation from the host contract.

**Impairment: ECL**
IFRS 9 replaces the incurred losses model employed by IAS 39 with a forward-looking model based on expected credit losses on financial assets. This requires considerable judgement as to the extent to which expected credit losses are influenced by changes in economic factors. For further details on the models used, see Note 3.3.2 Impairment losses/gains on financial assets – IFRS 9. The effect of first-time application, amounting to a reduction of EUR 20,404thsd, was recognised accordingly.

**Hedges (hedge accounting)**
With regard to the documentation, effectiveness assessment and accounting treatment of hedges, since 1 January 2018 there has been an elective right either to migrate to IFRS 9 or to continue to apply the accounting rules of IAS 39. The HYPO NOE Group elected to meet the new requirements of IFRS 9.

**Modifications**
In the event of modifications to contractual terms during the lifetime of an investment, IFRS 9 requires a decision as to whether the cash flows have been so significantly modified that a new contractual relationship has effectively come into being. This assessment is based on both quantitative and qualitative criteria.

Readers are referred to Note 3.3.3 Modifications for further details.

The effect of first-time application, a reduction of EUR 492thsd, was recognised accordingly.

**Transitional provisions**
The Group has not resorted to the transitional arrangements for initial application of the new CRR impairment rules.

Changes due to IFRS 9 will not be applied retrospectively as the Group has made use of the exception under which it may elect not to adjust comparative data from previous periods to the alterations in classification and measurement (including impairment). Differences between the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 will normally be recognised in retained earnings and other reserves as at 1 January 2018.

**Transition effect**
The main effects of the changes brought about by the introduction of IFRS 9 with respect to classification, measurement and risk provisions, and the impacts of those changes, are outlined below. The following table shows the transition effect of IFRS 9, which reduced reported equity, broken down by the main factors driving that effect.

| EUR '000 | IFRS 9 transition effect |
|---|---|
| Nostro reclassification from AFS to AC | -28,199 |
| Nostro reclassification from AC to FVTPL | -1,777 |
| Transition from impairment to ECL (incl. EUR 89thsd measured at FVOCI) | -20,404 |
| Transition from loans and receivables (LAR) to measurement at FVTPL (fair value measurement, reversal of risk provisions) | 444 |
| Impairment of other assets | -120 |
| Impact on deferred tax | 12,621 |
| Modification – initial effect | -492 |
| **IFRS 9 transition effect** | **-37,927** |

**Transition effect: reclassification and remeasurement**

The analysis below shows a reconciliation of the IAS 39 disclosures in the 2017 annual report and the opening balance sheet in accordance with IFRS 9 as at 1 January 2018. The HYPO NOE Group is making use of the transitional provisions of IFRS 9 and has therefore made no retrospective adjustments to the figures for the previous reporting periods. Reconciliation takes place in two stages. Firstly, the carrying amounts for the IAS 39 measurement categories as at 31 December 2017 are reconciled with the IFRS 9 categories. The second stage involves revaluation in accordance with IFRS 9 by measurement category, resulting in reconciliation with the carrying amounts under IFRS 9 as at 1 January 2018.

| EUR '000 | | IFRS 9 measurement categories | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Reclassification: IFRS 9 category =>IAS 39 categories | Carrying amounts as at 31 Dec. 2017 by IAS 39 categories (adjusted) | Cash and balances at central banks | Financial assets – HFT | Financial assets – mandatorily FVTPL | Financial assets – FVOCI | Financial assets – AC | Other assets | Financial liabilities – HFT | Financial liabilities – AC | Negative fair value of hedges (hedge accounting) | Provisions | Deferred tax liabilities |
| **Assets** | | | | | | | | | | | | |
| Cash and balances at central banks | 456,197 | 456,197 | – | – | – | – | – | – | – | – | – | – |
| Assets held for trading | 476,252 | – | 476,252 | – | – | – | – | – | – | – | – | – |
| Financial assets designated as at fair value through profit or loss | 19,474 | – | – | 19,474 | – | – | – | – | – | – | – | – |
| Available-for-sale financial assets | 1,594,189 | – | – | 92,218 | 855,826 | 646,144 | – | – | – | – | – | – |
| Loans and advances to banks | 860,821 | – | – | 81,745 | – | 779,076 | – | – | – | – | – | – |
| Loans and advances to customers | 10,230,232 | – | – | 176,621 | – | 10,053,611 | – | – | – | – | – | – |
| Risk provisions | -75,270 | – | – | -7,485 | – | -67,785 | – | – | – | – | – | – |
| Other assets | 226,827 | – | – | – | – | – | 226,827 | – | – | – | – | – |
| **Equity and liabilities** | | | | | | | | | | | | |
| Liabilities held for trading | 432,716 | – | – | – | – | – | – | 432,716 | – | – | – | – |
| Deposits from banks | 974,918 | – | – | – | – | – | – | – | 974,918 | – | – | – |
| Deposits from customers | 4,049,846 | – | – | – | – | – | – | – | 4,049,846 | – | – | – |
| Debts evidenced by certificates | 7,283,886 | – | – | – | – | – | – | – | 7,283,886 | – | – | – |
| Negative fair value of hedges (hedge accounting) | 705,616 | – | – | – | – | – | – | 747 | – | 704,869 | – | – |
| Provisions | 40,908 | – | – | – | – | – | – | – | – | – | 40,908 | – |
| Deferred tax liabilities | 43,371 | – | – | – | – | – | – | – | – | – | – | 43,371 |
| **Subtotal after reclassification** | | **456,197** | **476,252** | **362,573** | **855,826** | **11,411,046** | **226,827** | **433,463** | **12,308,650** | **704,869** | **40,908** | **43,371** |

EUR '000

| Remeasurement according to IFRS 9 categories, recognised in equity | Cash and balances at central banks | Financial assets – HFT | Financial assets – mandatorily FVTPL | Financial assets – FVOCI | Financial assets – AC | Other assets | Financial liabilities – HFT | Financial liabilities – AC | Negative fair value of hedges (hedge accounting) | Provisions | Deferred tax liabilities |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | |
| Available-for-sale financial assets | – | – | – | – | -28,199 | – | – | – | – | – | – |
| Loans and advances to banks | – | – | -1,777 | – | – | – | – | – | – | – | – |
| Loans and advances to customers | – | – | -7,041 | – | -492 | – | – | – | – | – | – |
| Risk provisions | – | – | 7,485 | – | -19,293 | – | – | – | – | – | – |
| Other assets | – | – | – | – | – | -120 | – | – | – | – | – |
| **Equity and liabilities** | | | | | | | | | | | |
| Provisions | – | – | – | – | – | – | – | – | – | 1,021 | – |
| Deferred tax assets | – | – | – | – | – | – | – | – | – | – | -12,621 |
| **Carrying amounts as at 1 Jan. 2018 by IFRS 9 categories** | **456,197** | **476,252** | **361,240** | **855,826** | **11,363,062** | **226,707** | **433,463** | **12,308,650** | **704,869** | **41,929** | **30,750** |

As at 31 December 2017 the HYPO NOE Group held one financial asset designated as at fair value through profit or loss; from 1 January 2018 this is reported under "Financial assets – mandatorily FVTPL" in accordance with IFRS 9. This redesignation was due to the fact that the asset no longer met the SPPI criterion outlined in paragraph 4.1 IFRS 9. Also as of 1 January 2018, the Group reclassified certain financial assets previously measured at fair value in accordance with IAS 39 as measured at AC. The fair value of the assets as at 31 December 2018 amounted to EUR 611,226thsd. Without reclassification, the reduction in fair value of EUR 3,340thsd in 2018 would have been recognised in profit or loss.

EUR '000

| Asset class | IAS 39 measurement category | IFRS 9 measurement category | IAS 39 risk provisions (31 Dec. 2017) | Increase in gross carrying amount with no effect on capital | Reclassification | Remeasurement | Risk provisions as at 1 Jan. 2018 (IFRS 9) | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets – LAR** | | | | | | | | | | |
| | LAR | AC | -67,785 | -3,434 | – | -18,510 | -89,729 | -8,359 | -18,506 | -62,865 |
| | LAR | FVTPL | -7,485 | – | 7,485 | – | – | | | |
| **Bonds** | | | | | | | | | | |
| | LAR | AC | – | – | – | -2 | -2 | -2 | – | – |
| | AFS | AC | – | – | – | -781 | -781 | -214 | -567 | – |
| | AFS | FVOCI | – | – | – | -89 | -89 | -69 | -20 | – |
| | AFS | FVTPL | – | – | – | – | – | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| **Provisions for loan commitments/ guarantees** | | | **-579** | **–** | **–** | **-1,021** | **-1,600** | **-936** | **-461** | **-204** |

**New and amended standards not yet applied,** which are currently expected to affect the HYPO NOE Group's consolidated financial statements but are not yet mandatory and have not been applied early:

**IFRS 16 Leases – mandatory in the EU for annual reporting periods beginning on or after 1 January 2019**
This standard supersedes the current standards on leases (IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). The Group will apply IFRS 16 from 1 January 2019. A project to implement IFRS 16 was launched at the start of 2018. In the course of the project, leases relevant to IFRS 16, in which the Group is the lessee (branches, car parks and vehicles), were identified. The Group will apply IFRS 16 using the modified retrospective approach. The effect of first-time application as at 1 January 2019 will be immaterial, since it will only result in a 10-15 basis point (bp) decrease in the Tier 1 capital ratio. The new standard is also unlikely to have a significant impact on the Group as a lessor.

**IFRS 9 Prepayment Features with Negative Compensation (Amendments to IFRS 9)**
Application is mandatory from 1 January 2019. The amendments relate to the measurement of financial assets with symmetric prepayment options at amortised cost or at fair value through other comprehensive income. The Group does not intend to apply this amendment to IFRS 9 early. As the number of such assets and the level of negative compensation is expected to be very low, the amendments will have an immaterial effect on the Group's financial statements.

**IFRIC 23 Uncertainty over Income Tax Treatments**
Application is mandatory from 1 January 2019 and is unlikely to have a significant impact on the HYPO NOE Group.

# 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2018 consist of the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes. The risk report, which contains disclosures pursuant to the provisions on the operational and financial review in section 267 Austrian Business Code, is part of the notes.

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

### 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.

Estimates and assumptions were applied in particular to the following:

- Measuring financial instruments and associates;
- Determining impairment losses and gains on financial assets;
- Defining default;
- Performing SPPI tests;
- Establishing principles for the transfer of financial instruments (stage transfer);
- Assessing inclusion in the scope of consolidation;
- Recognising deferred tax assets attributable to tax loss carryforwards;
- Calculating fair value;
- Evaluating the effect of first-time application of new accounting standards;
- Recognising and measuring provisions.

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 consolidation of the HYPO NOE Group includes all subsidiaries that are directly or indirectly controlled by the parent, and are material to the presentation of the Group's assets, finances and earnings. The scope of consolidation is reviewed on an ongoing basis. Apart from the parent, HYPO NOE Landesbank für Niederösterreich und Wien AG, the Group comprises a total of 64 Austrian subsidiaries in which the parent meets the criteria for control. Besides the parent, a total of 66 Austrian subsidiaries were included in consolidation in the previous reporting period. Nine companies are accounted for using the equity method.

Subsidiaries are included in the consolidated financial statements from the date on which control is obtained and as a result the tests for a parent company are passed. 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.

Where material, operating subsidiaries are included in the consolidated financial statements from the point at which the HYPO NOE Group obtains control until the time at which it is no longer exercised. The Group regularly assesses whether certain facts or circumstances indicate that one or more of the above conditions for control are no longer met. When determining whether control as defined by IFRS 10 exists, the Group assesses a variety of factors including voting rights, the purpose and design of the investee, and the opportunities to exercise influence. Where voting rights are seen as conclusive in judging whether control exists, the HYPO NOE Group is normally assumed to control an investee if it directly or indirectly holds or controls more than half of the voting rights. Besides voting rights, other rights and de facto circumstances are taken into account. Where the Group does not control a majority of the voting rights but does possess the practical ability to direct relevant activities, the Group is also assumed to control an entity.

Consolidation is performed in accordance with IFRS 3 Business Combinations, using the purchase 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 3.9 Intangible assets, and property, plant and equipment). Negative differences are recognised directly in profit or loss following an additional review. The carrying amount of goodwill is tested for impairment once a year and whenever there is an indication of impairment. Such indications 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 company concerned form the basis of the impairment test, and these are compared with historic values and the market conditions in question.

Under IFRS 1, it is not necessary to apply IFRS 3 to business combinations that occurred before the effective date of IFRS 3. Accordingly, the same consolidation method was applied as that used for the Austrian Business Code consolidated statements. The cost of the investments was netted against the share of the carrying value of their equity held at the date of consolidation. The positive and negative differences arising on consolidation 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, as well as Note 5.10 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 interests in joint operations.

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). The first step towards determining whether there is joint control is to discover who exercises power over the relevant activities. Joint control exists if such power is exercised by two or more parties on a contractual basis. Associates are entities over which the HYPO NOE Group directly or indirectly has significant influence. Significant influence over an entity usually exists if the Group holds between 20% and 50% of the voting rights. Besides the extent of the voting rights, the Group also takes account of other factors which indicate that significant influence is exercised. These include representation of the Bank on the management or supervisory bodies of the investee or participation in key decisions. In such cases, the question of whether there is significant influence even if the Group holds less than 20% of the voting rights is also considered.

If an entity accounted for using the equity method applies accounting policies that diverge from those of the Group, adjustments based on an auxiliary calculation are made to align the investee's accounting policies to the Group's IFRS policies. The results are reported under a separate item in the statement of financial position (Note 6.7 Investments accounted for using the equity method), and in the statement of comprehensive income (Note 5.8 Net gains or losses on investments accounted for using the equity method).

## CHANGES IN 2018

**Formations, mergers and reorganisations**

The merger of SRE Immobilien GmbH with Strategic Equity Beteiligungen GmbH — both consolidated entities — was completed with the entry of the transaction in the register of companies on 12 October 2018. This merger has no material effect on the consolidated financial statements.

The reorganisation of NOE Immobilien Development AG as a GmbH (private limited company) was entered in the register of companies on 8 June 2018.

**Change in the scope of consolidation and disposals**

Due to the change in the branch policy operated by HYPO NOE Landesbank für Niederösterreich und Wien AG and the resultant disposal of Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH, which belonged to the former Real Estate & Large Corporates segment (now the Real Estate Customers segment), the entity concerned, which was previously presented as an IFRS 5 disposal group, was disposed of, and the transaction registered on 27 April 2018.

From 31 March 2018, the parent's holding in Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH was reported as a financial asset measured at FVOCI; this interest was sold, and the transaction registered on 31 May 2018.

## 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 Landesbank für Niederösterreich und Wien AG as at 31 December 2018:

| Company name | Domicile | Interest | of which indirect |
|---|---|---|---|
| HYPO NOE Landesbank für Niederösterreich und Wien AG | St. Pölten | | |
| Adoria Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 51.00% | 26.00% |
| AELIUM Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| ALARIS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 75.00% |
| ARTES Grundstückvermietungs GmbH | St. Pölten | 100.00% | 100.00% |
| Aventin Grundstückverwaltungs Gesellschaft m.b.H. | St. Pölten | 51.00% | 51.00% |
| Benkerwiese Mietergemeinschaft GmbH | St. Pölten | 100.00% | 100.00% |
| Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| BSZ Eisenstadt Immobilien GmbH | St. Pölten | 100.00% | 100.00% |
| CALCULATOR Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 75.00% |
| CALLIDUS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| CLIVUS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| COMITAS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| CONATUS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 51.00% | 26.00% |
| CURIA Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 75.00% |
| Esquilin Grundstücksverwaltungs Gesellschaft m.b.H. | St. Pölten | 51.00% | 51.00% |
| FAVIA Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| FORIS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 51.00% | 26.00% |
| HBV Beteiligungs-GmbH | St. Pölten | 100.00% | – |
| HOSPES-Grundstückverwaltungs Gesellschaft m.b.H. | St. Pölten | 66.67% | 66.67% |
| HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH | St. Pölten | 100.00% | 100.00% |
| HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH | St. Pölten | 100.00% | 100.00% |
| HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH | St. Pölten | 100.00% | 100.00% |
| HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| HYPO Niederösterreichische Liegenschaft GmbH | St. Pölten | 100.00% | 100.00% |
| HYPO NOE First Facility GmbH | Vienna | 100.00% | 100.00% |
| HYPO NOE Immobilien Beteiligungsholding GmbH | St. Pölten | 100.00% | – |
| HYPO NOE Immobilienmanagement GmbH | St. Pölten | 100.00% | 100.00% |
| HYPO NOE Leasing GmbH | St. Pölten | 100.00% | – |
| HYPO NOE Real Consult GmbH | St. Pölten | 100.00% | 100.00% |
| HYPO NOE Valuation & Advisory GmbH (under liquidation) | St. Pölten | 100.00% | – |
| HYPO NOE Versicherungsservice GmbH | St. Pölten | 100.00% | – |
| HYPO Omega Holding GmbH | St. Pölten | 100.00% | – |
| HYPO-REAL 93 Mobilien-Leasinggesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| Landeskrankenhaus Tulln-Immobilienvermietung Gesellschaft m.b.H. | St. Pölten | 100.00% | 56.42% |
| LITUS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 51.00% | 26.00% |
| METIS Grundstückverwaltungs GmbH | St. Pölten | 100.00% | 100.00% |
| NEMUS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 75.00% |
| NEUROM Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| NÖ. HYPO LEASING AGILITAS Grundstücksvermietung Gesellschaft m.b.H. | St. Pölten | 100.00% | 75.00% |

| | | | |
|---|---|---|---|
| NÖ. HYPO LEASING ASTEWOG Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 75.00% |
| NÖ. HYPO LEASING FIRMITAS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| NÖ. HYPO LEASING GERUSIA Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 75.00% |
| NÖ. HYPO LEASING Landeskliniken Equipment GmbH | St. Pölten | 100.00% | 100.00% |
| NÖ. HYPO LEASING MEATUS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 75.00% |
| NÖ. HYPO LEASING MENTIO Grundstücksvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| NÖ. HYPO LEASING NITOR Grundstücksvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| NÖ. HYPO LEASING STRUCTOR Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 75.00% |
| NÖ. HYPO LEASING URBANITAS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| NÖ. Verwaltungszentrum — Verwertungsgesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| PINUS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 99.00% | 99.00% |
| PROVENTUS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| Sana Grundstückverwaltungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| SATORIA Grundstückvermietung GmbH | St. Pölten | 100.00% | 100.00% |
| Strategic Equity Beteiligungen GmbH | St. Pölten | 100.00% | 100.00% |
| Telos Mobilien - Leasinggesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| Treisma Grundstücksverwaltungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| VALET-Grundstückverwaltungs Gesellschaft m.b.H. | St. Pölten | 51.00% | 51.00% |
| VESCUM Grundstückvermietungs GmbH | St. Pölten | 100.00% | 100.00% |
| VIA-Grundstückverwaltungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| VIRTUS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |
| VITALITAS Grundstückverwaltung GmbH | St. Pölten | 100.00% | 100.00% |
| VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 65.00% | 65.00% |
| ZELUS Grundstückvermietungs Gesellschaft m.b.H. | St. Pölten | 100.00% | 100.00% |

### 3.2.2 SUMMARY FINANCIAL INFORMATION REGARDING SUBSIDIARIES PARTLY HELD BY NON-CONTROLLING INTERESTS

The table below provides financial information relating to subsidiaries in which the Group holds non-controlling interests, including the leasing companies, for which the data is aggregated. The share of non-controlling interests in the profit or loss of each company is shown under Note 5.10 Non-controlling interests. In 2018 there were no non-controlling interests that shared 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 sub-group 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Financial assets – AC | 569,807 | N/A |
| Loans and advances to banks | N/A | 4,196 |
| Loans and advances to customers | N/A | 495,476 |
| Current tax assets | – | 974 |
| Deferred tax assets | 215 | 246 |
| Other assets | 2,049 | 75,173 |
| **Total assets** | **572,071** | **576,065** |
| | | |
| Financial liabilities – AC | 529,989 | N/A |
| Deposits from banks | N/A | 440,344 |
| Deposits from customers | N/A | 84,462 |
| Deferred tax liabilities | 5,604 | 5,625 |
| Other liabilities | 16,384 | 24,775 |
| Supplementary capital | 2,907 | 2,907 |
| Equity | 17,187 | 17,952 |
| Equity attributable to owners of the parent | 9,210 | 9,567 |
| Non-controlling interests | 7,977 | 8,385 |
| **Total equity and liabilities** | **572,071** | **576,065** |

Dividends of EUR 463thsd (2017: EUR 200thsd) were distributed by Aventin Grundstückverwaltungs Gesellschaft m.b.H to non-controlling interests in 2018.

### 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 (see Note 6.7 Investments accounted for using the equity method and Note 3.2 Investments).

The Group ceases to use equity method accounting from the point at which the investment no longer represents an associate or a joint venture, or it must be classified as held for sale in accordance with IFRS 5.

The Group's share of the annual profit or loss, and any impairment losses or gains are recorded under "Net gains or losses on investments accounted for using the equity method" (Note 5.8). Exchange differences arising from investments accounted for using the equity method are reported as part of consolidated equity, in the currency translation reserve.

| Company name | Domicile | Interest | of which indirect | EUR '000 Carrying amount of interests in associates and joint ventures (IFRS share of equity) | EUR '000 Profit/loss from continuing operations (measurement gains or losses) | Reporting date |
|---|---|---|---|---|---|---|
| **Four 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 reported in Note 8.5 Disclosures on related-party relationships.** | | | | | | |
| **The joint ventures shown below implement joint leasing projects on the basis of agreements with partners. In most cases joint control of the companies has been agreed, and the Group therefore classifies these companies as joint ventures. They do not contribute to other comprehensive income.** | | | | | | |
| Palatin Grundstückverwaltungs Gesellschaft m.b.H. | St. Pölten | 50.00% | 50.00% | **94** | **-16** | **31 Dec. 2018** |
| | | | | 109 | -8 | 31 Dec. 2017 |
| Viminal Grundstückverwaltungs Gesellschaft m.b.H. | Vienna | 50.00% | 50.00% | **–** | **-126** | **31 Dec. 2018** |
| | | | | 126 | 126 | 31 Dec. 2017 |
| NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG | St. Pölten | 50.00% | 50.00% | **649** | **-34** | **31 Dec. 2018** |
| | | | | 684 | -367 | 31 Dec. 2017 |
| **The following joint venture is jointly controlled by means of unanimous resolutions on the appointment of management board members.** | | | | | | |
| Niederösterreichische Vorsorgekasse AG | St. Pölten | 49.00% | – | **3,366** | **524** | **31 Dec. 2018** |
| | | | | 3,009 | 521 | 31 Dec. 2017 |
| **Joint ventures – subtotal as at 31 Dec. 2018** | | | | **4,109** | **348** | |
| **Joint ventures – subtotal as at 31 Dec. 2017** | | | | **3,928** | **272** | |
| **Five 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.** | | | | | | |
| **Companies over which the HYPO NOE Group significant influence are accounted for using the equity method** | | | | | | |
| **The share of other comprehensive income attributable to currency translation, at EUR 70thsd (31 Dec. 2017: nil), relates to the translation of the results of foreign associates.** | | | | | | |
| EWU Wohnbau Unternehmensbeteiligungs-Aktien-gesellschaft (consolidated financial statements) | St. Pölten | 48.00% | – | **1,968** | **-959** | **31 Dec. 2018** |
| | | | | 2,819 | -4,491 | 31 Dec. 2017 |
| Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H. | Korneuburg | 32.50% | – | **2,264** | **696** | **31 Dec. 2018** |
| | | | | 2,049 | 1,107 | 31 Dec. 2016 |
| Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG | St. Pölten | 45.41% | 45.41% | **674** | **1** | **31 Dec. 2018** |
| | | | | 673 | -1 | 31 Dec. 2017 |
| NÖ. Landeshauptstadt-Planungsgesellschaft m.b.H. | St. Pölten | 39.00% | 39.00% | **682** | **-58** | **31 Dec. 2018** |
| | | | | 740 | 449 | 31 Dec. 2017 |
| NOE Immobilien Development GmbH (consolidated financial statements) | St. Pölten | 48.00% | 48.00% | **13,451** | **-565** | **31 Dec. 2018** |
| | | | | 14,016 | -736 | 31 Dec. 2017 |
| **Associates – subtotal at 31 Dec. 2018** | | | | **19,039** | **-885** | |
| **Associates – subtotal at 31 Dec. 2017** | | | | **20,297** | **-3,673** | |
| **Deconsolidated associates – subtotal at 31 Dec. 2018** | | | | **–** | **–** | |
| **Deconsolidated associates – subtotal at 31 Dec. 2017** | | | | **–** | **89** | |
| For further details on the following totals see Note 6.7 Investments accounted for using the equity method, as well as Note 5.8 Net gains or losses on investments accounted for using the equity method. | | | | | | |
| **Investments accounted for using the equity method – total at 31 Dec. 2018** | | | | **23,148** | **-537** | |
| **Investments accounted for using the equity method – total at 31 Dec. 2017** | | | | **24,225** | **-3,312** | |

**DETAILED DISCLOSURES ON MATERIAL ASSOCIATES AND JOINT VENTURES**

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, is classified as an associate accounted for using the equity method:
- EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft

Significant influence over EWU is partly exercised by means of the appointment of members of the Group's key management to positions at the company.

The following sub-group, including its subsidiaries, is classified as an associate accounted for using the equity method:
- NOE Immobilien Development GmbH

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

**Niederösterreichische Vorsorgekasse AG** is a separate financial services provider, and is the employee benefit fund that manages employees' termination benefit entitlements. Employers pay statutory contributions on behalf of employees. The manner in which the management board is appointed and the requirement for unanimous resolutions mean that the company is classified as being under joint control.

**EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (EWU)**, a public limited company, serves as a holding company for investments in non-profit housing development companies. EWU's subsidiaries are mainly concerned with the acquisition, disposal and management of land, buildings and apartments on behalf of third parties, and also operate as property developers. They are subject to the Austrian Wohnungsgemeinnützigkeitsgesetz (Non-profit Housing Act).

As the Act places restrictions on dividend distributions, and a substantial provision has been made for debt reduction, paragraph 40ff. IAS 28 in conjunction with paragraph 1 IAS 36 state that the recoverable amount must be determined and recognised, provided that this is less than the equity holding. The recoverable amount under paragraph 6 IAS 36 is the higher of the fair value under IFRS 13 less costs to sell and the value in use of the asset in question.

In the course of medium-term planning in the second half of 2018 it was found that the volume of new business, which corresponds to the value added generated in the lending business, had declined significantly over a sustained period. During the same period a transaction was concluded that warranted an impairment test in accordance with IAS 36.

It should be noted that owing to EWU's non-profit status, the applicable legislation must be taken into account in the process of company valuation.

Under paragraph 6 IAS 36 in conjunction with paragraph 5 IFRS 13, an objective (fair) value must be arrived at to calculate fair value less costs to sell. Under a transaction signed and concluded on 31 October 2018 the HYPO NOE Group acquired 1,497 no par shares at a price of EUR 72 per share, meaning that it now holds a 48% stake (22,388 shares) in EWU.

The Group measures the recoverable value of the investment in EWU with reference to the value in use concept, applying the following value components:
1. The present value of EWU's expected cash flows (corresponds approximately to the fair value in accordance with IFRS 13);
2. The present value of expected cash flows from additional lending, which is in line with the potential synergies and is not priced into the fair value determined in accordance with IFRS 13 as these cash flows would not be available to typical market participants.

**Present value of EWU's expected cash flows**

In order to calculate the present value of EWU's expected dividend payments, the sub-group's budgeted distributable amounts were discounted using the dividend discount model (DDM), taking into account the restrictions imposed by the Non-profit Housing Act on annual dividend payments by non-profit housing developers.

Under the applicable legislation annual distributions arising from EWU's investments are based on the share capital employed, and the return may not exceed 3.5%. As the annual dividends remain constant at 3.5% over the entire lifetime of the investee owing to the statutory regulations, the fair value of EWU under IFRS 13 is calculated as the present value of perpetual constant investment income, less EWU's indexed operating costs.

The time horizon used in the calculation is greater than five years, as one-time effects must be factored in at the rough budgeting stage before a long-term profit forecast can be made. The underlying growth rate on a going concern basis is zero. This is due to the restrictions under the Non-profit Housing Act, as a result of which EWU's realisable investment income is capped and – ceteris paribus – must remain constant.

The discount rate applied is the return on equity required by potential investors; this reflects the return from companies with a similar risk profile in the meaning of paragraph 55 IAS 36, which was validated by a plausibility assessment based on experience.

| Sensitivity analysis, EUR '000 | Change in fair value |
|---|---|
| 10% increase in costs | -187 |
| 10% decrease in costs | +187 |
| 0.25 bp decrease in discount rate (DDM component) | -48 |
| 0.25 bp increase in discount rate (DDM component) | -21 |

It should be noted that any loosening of the restrictions in the Non-profit Housing Act, or any amendments thereto with regard to the companies' ability to pay dividends could lead to a significant increase in EWU's fair value.

**Present value of EWU's expected cash flows from additional lending**

Value in use is calculated on the basis of future lending to the EWU Group that has not yet been recognised. The investment in EWU and the resultant synergies give rise to intangible benefits for the Bank in the shape of an improved understanding of non-profit housing construction finance and greater proximity to the market. These feed into additional business and the income generated from it. Surplus cash flows relevant to valuation are discounted at the measurement date using an appropriate discount rate. These surplus cash flows are based on the expected level of replacement business and the resultant average net margins.

The Group calculates the discount rate for surplus cash flows using the capital asset pricing model (CAPM), i.e. cost of equity = risk-free interest rate + beta factor x market risk premium + country risk premium). The overall discount rate applied by the HYPO NOE Group is 5.94% (2017: 5.61%).

Estimated surplus cash flows are based on the earnings forecast for the 2019-2023 period (medium-term plan).

| Sensitivity analysis, EUR '000 | Change in fair value |
|---|---|
| EUR 1m increase in replacement business p.a. | +134 |
| EUR 1m decrease in replacement business p.a. | -134 |
| 100 bp increase in discount rate (VIU component) | -34 |
| 100 bp decrease in discount rate (VIU component) | +48 |
| 10 bp increase in surplus margin | +90 |
| 10 bp decrease in surplus margin | -90 |

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

The basis for the initial disclosure of financial information was the fair value of the NID Group's IFRS equity (EUR 14,752thsd) and the delta amount (EUR 1,271thsd), reported under the "Difference allocated to assets" item, arising from the disposal and its inclusion as an investment accounted for using the equity method. EUR 566thsd was reversed during the period under review (2017: EUR 366thsd). The remaining difference as at 31 December 2018 was EUR 340thsd. This is tested for impairment on an ongoing basis, using the various project budgets and forecasts.

Besides measurement of the difference, the NID Group is also constantly accounted for using the equity method. During the reporting period this led to the recognition of EUR 1thsd in goodwill. With an interest of 48%, the HYPO NOE Group has sufficient voting power to exercise significant influence.

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

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

| | Niederösterreichische Vorsorgekasse AG | | EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements) | | NOE Immobilien Development GmbH (consolidated financial statements) | |
|---|---|---|---|---|---|---|
| **Percentage holding** | **49.00%** | **49.00%** | **48.00%** | **44.79%** | **48.00%** | **48.00%** |
| **EUR '000 as at reporting date of consolidated financial statements** | **31 Dec. 2018** | **31 Dec. 2017** | **31 Dec. 2018** | **31 Dec. 2017** | **31 Dec. 2018** | **31 Dec. 2017** |
| Non-current assets | 5,366 | 6,967 | 1,561,801 | 1,527,614 | 76,903 | 68,153 |
| Current assets | 2,792 | 34 | 187,081 | 163,297 | 6,881 | 10,208 |
| Cash and cash equivalents | 61 | 29 | 116,906 | 100,134 | 3,097 | 5,883 |
| Long-term borrowings | -15 | -5 | -1,607,739 | -1,526,415 | -54,761 | -41,807 |
| Short-term borrowings | -931 | -562 | -26,204 | -41,320 | -1,707 | -9,239 |
| **Net assets (100%)** | **7,212** | **6,434** | **114,939** | **123,176** | **27,316** | **27,315** |
| **Group share of net assets** | **3,534** | **3,153** | **55,171** | **55,171** | **13,112** | **13,111** |
| Adjustment items pursuant to the capital protection provisions in the Non-profit Housing Act | – | – | -52,352 | -49,250 | – | – |
| Impairment losses | – | – | -851 | -3,039 | – | – |
| Difference allocated to assets | – | – | – | – | 339 | 905 |
| Dividends received | -167 | -144 | – | -62 | – | – |
| **Carrying amount of interests in associates** | **3,366** | **3,009** | **1,968** | **2,819** | **13,451** | **14,016** |
| **EUR '000 – profit/loss as basis for inclusion in annual report** | **31 Dec. 2018** | **31 Dec. 2017** | **31 Dec. 2018** | **31 Dec. 2017** | **31 Dec. 2018** | **31 Dec. 2017** |
| Net interest income | 105 | 218 | 304 | 428 | -621 | -557 |
| Other income | 3,613 | 3,210 | 160,187 | 149,536 | 15,906 | 4,487 |
| Operating expense | -2,310 | -2,023 | -146,802 | -129,396 | -15,789 | -4,730 |
| Profit before tax | 1,409 | 1,404 | 13,689 | 20,567 | -504 | -800 |
| Income tax expense | -339 | -340 | -11 | -11 | 520 | -53 |
| **Profit for the year (100%)** | **1,070** | **1,064** | **13,678** | **20,556** | **16** | **-853** |
| Pro rata reversals allocated to assets | – | – | – | – | -573 | -326 |
| Group share of adjustment items pursuant to the capital protection provisions of the Non-profit Housing Act – impairment | – | – | -7,525 | -10,659 | – | – |
| **Group share of profit/loss** | **524** | **521** | **-959** | **-1,452** | **-565** | **-735** |

## 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.

IFRS 9 requires the recognition of all financial assets and liabilities in the consolidated statement of financial position. The HYPO NOE Group recognises the regular way purchase or sale of derivatives and financial instruments on the trade date. Financial assets are derecognised when the contractual rights to the cash flows from them expire or the transfer criteria are fulfilled. Financial liabilities are derecognised when the obligations concerned are discharged or otherwise extinguished.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments are initially recognised at fair value plus transaction costs. The exception are assets measured at FVTPL. 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 non-option financial instruments (including interest rate swaps, cross-currency interest rate swaps, FX forwards and forward rate agreements) are discounted to present value applying an appropriate interest rate (discounted cash flow method). Measurement is performed using standard financial valuation techniques. Information on observable inputs is given in Note 8.1.1 Financial instruments measured at fair value, in the section on the fair value hierarchy. Widespread options pricing models (e.g. Bachelier and Hull White) are used to value OTC financial instruments with option-like characteristics, applying current market inputs. If the fair value of equity instruments cannot be determined, or determined reliably, the instruments are recognised at amortised cost (see Note 8.1 Fair value disclosures).

Customer swaps are measured using an internal model based on the DCF method, taking account of the current interest rate and basis spread curves. Prevalent option valuation models are used to measure embedded options such as interest rate ceilings and floors. Counterparty and own credit risk are taken into consideration by means of credit value adjustments (CVAs) and debt value adjustments (DVAs), respectively, when calculating the fair value of all uncollateralised customer derivatives (e.g. those without a credit support annex [CSA]). However, since issuance by customers is virtually non-existent and it is thus not possible to derive credit spreads from quoted prices, the credit spreads for instruments with matching maturities are calculated using global CDS index curves in line with the customer's credit rating.

### 3.3.1 THE HYPO NOE GROUP'S BUSINESS MODELS

The designation and assessment of business models is on a portfolio basis. The classification of the portfolios is not arbitrary, but must be based on control of the business activities concerned and objectively supportable. IFRS 9 must normally be applied retrospectively, but the business model test is an exception to this rule.

- "Hold to collect" business model
  The HYPO NOE Group's lending business and investments are essentially aimed at holding assets to maturity. However, this business model permits a modicum of disposals. In principle, minor asset sales are allowed, as well as instances of significant sales transactions provided that these are incidental and rare. Compliance with this rule is enforced by the regular meetings of the ALM Committee.

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

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

  Financial assets qualify for this business model if their sale is aimed at maximising cash flows. Here, the objective is the active sale of financial assets in order to realise profits from the change in fair value. The collection of contractual cash flows is not typically the prime component of this business strategy. One of the key criteria for attribution to this business model is the expected frequency and volume of sales. Sales in "stress case" scenarios do not count. Portfolio management prioritises attainment of the performance targets — change in present value, liquidity through sales, customer interest contribution and mismatch contribution. This makes it possible to respond effectively to market developments, or changed market expectations and assessments. At the start of each financial year, a plan is drawn up for the securities portfolios held within the "hold to collect and sell" business model. This is based on forecast trends in credit ratings, credit spreads and interest rates.

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

### 3.3.2 IMPAIRMENT LOSSES/GAINS ON FINANCIAL ASSETS — IFRS 9

The impairment rules set out in paragraph 5.5 IFRS 9 cover the following items:
- Financial assets — FVOCI;
- Financial assets — AC;
- Lease receivables;
- Trade receivables with finance elements;
- Loan commitments and financial guarantees.

Under the model generally applied to impairment, risk provisions usually cater for the expected credit losses over the lifetime or residual maturity of an asset, with the exception of the following items, for which 12-month expected credit losses are recognised in profit or loss:
- Financial instruments for which there has not been a significant increase in credit risk since initial recognition (Stage 1);
- Financial assets with a low credit risk as at the measurement date, in accordance with paragraph 5.5.10 IFRS 9 (low credit risk exemption).

**Financial instruments for which there has not been a significant increase in credit risk (Stage 1)**
For Stage 1 financial instruments, 12-month credit losses are calculated on the basis of the 12-month probability of default (PD), exposure at default (EAD), loss given default (LGD) for the collateralised and uncollateralised parts of the instrument, and the credit conversion factor (CCF) for off-balance-sheet items.

Financial instruments with a low risk of default and other assets classed as low risk are categorised as investment-grade assets (see Note 8.6 Risk management). Only transactions where there is a low risk of default are assigned to rating class 1. As soon as the rating is no longer class 1 (i.e. between 2A and 5E), the qualitative or quantitative triggers summarised below can activate a stage transfer and, in the event of default, result in allocation to Stage 3.

**Financial instruments for which there has been a significant increase in credit risk (Stage 2)**
Financial instruments for which there has been a significant increase in credit risk since initial recognition are transferred to Stage 2. Risk provisions equal to the lifetime expected credit losses are recognised for Stage 2 financial instruments. Risk provisions are recognised using the same parameters as in Stage 1, but over the entire lifetime of the asset.

The HYPO NOE Group uses quantitative and qualitative indicators to determine whether credit risk has increased significantly.

The quantitative staging factor compares the residual probability of default for the remaining term of the asset as at the measurement date with the forward-looking PD for the same term estimated on initial recognition. Consequently, the following two PDs are compared:
- The lifetime PD of the financial instrument (from the current date to the end of the contractual term) based on the current assessment of the customer's creditworthiness;
- The lifetime PD of the financial instrument (from the current date to the end of the contractual term) based on the assessment of the customer's creditworthiness at the time of recognition of the asset.

If the first lifetime PD is significantly higher than the second, the financial instrument is assigned to Stage 2.

With the quantitative staging criterion, a threshold over and above a specified staging factor that results in a stage transfer is defined. As the starting point for determining the staging threshold, a three-notch deterioration in the credit rating has been classified as significant. This threshold is subsequently calculated for each class of risk exposure, rating level, lifetime and residual maturity. This is done by comparing the cumulative lifetime PD of the initial rating with the same lifetime PD minus three notches. As multi-year cumulative lifetime PDs do not increase in a linear fashion over time, there are different staging thresholds for the lifetimes and residual maturities, depending on the change in PD for a given risk exposure class and rating. The staging factor threshold determined on the basis of the risk exposure class, lifetime and residual maturity is compared with the current staging factor (the rate of change in the PD) for each transaction. A stage transfer takes place if the threshold is exceeded.

Qualitative indicators employed to determine whether there has been a significant increase in credit risk comprise forbearance measures, whether payment is 30 days past due, intensified customer service, customers unrated at the reporting date and early warning indicators (to the extent that these are not already adequately reflected in the rating). The Group has not disproved the assumption outlined in paragraph 5.5.11 IFRS 9 that credit risk has increased significantly since initial recognition if financial assets are more than 30 days overdue.

Transfer to a different stage can be initiated by a qualitative or a quantitative trigger.

At the HYPO NOE Group losses incurred but not yet identified are recognised under impairment losses/gains due to use of the expected credit loss (ECL) model. When calculating impairment losses/gains, credit risk is identified and assessed at regular intervals for individual exposures that exceed quantitative and qualitative rating triggers, as described above. This leads to a regular evaluation of individual exposures which identifies the losses incurred in good time.

If a trigger activates a stage transfer, retransfer only takes place when the trigger in question no longer applies. In Stage 2, good conduct periods are usually not observed, with the exception of forbearance measures. In the case of the latter, the qualitative trigger only expires after a two-year probation period.

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

**Calculation method for expected credit losses**

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

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

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

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

**Financial assets with impaired credit quality (Stage 3)**

Financial instruments with impaired credit quality (i.e. in default) in accordance with the definition of default given in Art. 178 CRR are allocated to Stage 3. The HYPO NOE Group has decided to adopt the regulatory definition in its application of the IFRS impairment model. This applies to all financial instruments.

The Group uses the following procedures and indicators to determine whether the credit quality of a financial asset is impaired:

- Third unsuccessful reminder;
- 90 days overdue;
- Insolvency: daily search of and checking against list of newly opened insolvency proceedings;
- Deterioration in financial position: ongoing assessment of creditworthiness as part of the review and rating process performed by the credit risk management and sales units;
- Customer unlikely to pay – insufficient expected cash flow: identification by Operating Credit Risk Management Department;
- Significant financial difficulties on the part of the issuer or borrower;
- Breach of contract, such as default or payment arrears;
- Concessions made by the lender to the borrower for financial or legal reasons in connection with the latter's financial difficulties, but which would otherwise not be considered;
- Disappearance of an active market for the financial asset because of financial difficulties.

The following indicators are applied to corporate loan agreements:

- Acute liquidity bottlenecks;
- Termination of credit lines by other lenders;
- Request for additional collateral from other lenders;

- Financial equity used up in connection with losses;
- Operating losses incurred, but only one-off income due;
- Impairment of collateral;
- Objections to bills of exchange or cheques, debit advice returned;
- Payments to collection agencies, attachments;
- Severe management problems (e.g. frequent replacement of managers, succession not clearly planned);
- Several simultaneous warning signals, e.g. payment arrears, frequent overdrafts, suspicious account transactions.

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

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

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

When calculating the necessary risk provisions, a variety of scenarios are generated and weighted, depending on the servicing status of the customer in question. This gives rise to the current level of risk provisions required for the customer's various credit facilities.

The HYPO NOE Group has defined the following scenarios.

**Contractual cash flow scenario**
In this scenario, only cash flows of principal and interest arising from contractual agreements over the residual term of the loan are recognised. Income from the potential realisation of collateral is not considered. When estimating the level of cash flows, it is assumed that these will be received in full over the entire residual maturity of the transaction. This also applies to off-balance-sheet items.

**Going concern scenario**
Here, it is assumed that the customer will pay the principal and/or interest for at least three years and that the realisation of available collateral will only begin after three years. Until that time, no steps are taken to collect the outstanding amount. After three years, realisation begins and the realisation period commences. Consequently, cash flows from payments of principal and interest, as well as from the realisation of collateral are taken into account.

**Gone concern scenario**
Under the gone concern scenario, it is assumed that the customer has ceased to make payments and the outstanding loans and receivables can be covered from the realisation of the collateral furnished. The realisation period is determined on the basis of the collateral classes. Only cash flows from collateral realisation are usually recognised in this scenario.

**Risk provisions based on servicing status**
When determining the risk provision for an individual customer, various servicing statuses may apply. The servicing status depends on the customer's contractual position. The status indicates that certain scenarios are more likely, or that they are no longer relevant. For this reason, different weightings are attached according to the servicing status. Changes to these weightings are only permitted in justified exceptional cases and require the approval of senior managers in Intensive Care Management. Such exceptions must also be documented.

**Cure**
A cure is where an intensive care customer transitions from a non-performing (i.e. from 5A downwards) to a performing rating grade. The decision as to whether a loan can be returned to normal servicing (front and back office) after successful intensive care management (cure) and a sustained improvement in risk factors is taken in response to an application. The following minimum requirements are decisive:

- The exposure is performing in accordance with the regulatory provisions on forbearance.
- None of the customer's loans or receivables are in arrears or overdue.
- The reason or reasons that triggered the event have no longer applied for an extended period. In addition, intensive care customers must also meet all of the following criteria, regardless of the initial event:
- Obligations arising from the loan agreement are duly fulfilled for the following minimum periods after restructuring:
    - Retail Customers
        - Six months in the case of monthly repayments;

    - Nine months in the case of quarterly repayments;
    - 12 months in the case of half-yearly repayments.
  - All other customer groups
    - Two successive annual financial statements (statement of financial position, or receipts and payments statement) showing an operating profit;
    - Feasibility of long-term debt service from cash flow is realistic;
- Improvement in the customer's financial situation;
- No other indications of impaired creditworthiness.

Once default status has been cancelled the customer is transferred to rating class "NR" (unrated) until a performing rating is approved.

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

**NPL ratio**
The non-performing loan (NPL) ratio is a key performance measure for banks in connection with financial assets in default. The ratio is reported in the financial review section of the operational and financial review. NPL coverage is defined as total risk provisions for Stage 3, taking account of collaterals, divided by the sum of the gross carrying amounts of the NPLs. Coverage for the Group as at 31 December 2018 was 63.8% (31 Dec. 2017: 82.0%). The fall in NPL coverage was due to the reclassification of a security from AFS to measured at AC in accordance with IFRS 9, and not to any deterioration in the lending portfolio.

**Forbearance**
Forborne exposures are loans for which concessions have been made to debtors who are in danger of being unable to fulfil their payment obligations on account of financial difficulties. Forborne exposures are those that satisfy both of the following conditions:
- Amendment of the agreement or refinancing results in concessions to a debtor;
- Payment difficulties exist.

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

For forbearance status to be cancelled, all of the following conditions must be satisfied:
- Analysis of the debtor's financial position supports the assessment that the debtor can meet their financial liabilities;
- The loan is classified as performing;
- The probation period of at least two years has been completed;
- The debtor has materially fulfilled their payment obligations regularly over at least half of the probation period;
- None of the debtor's exposures during and at the end of the probation period are overdue by more than 30 days.

The principal forbearance measures in 2018 were reschedulings, term extensions and refinancing measures.

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

These monitoring measures ensure that forborne exposures are classified as non-performing as soon as:
- The desired outcome of forbearance (renewed compliance with terms and conditions) is not achieved or can no longer be expected to be achieved;
- The customer is more than 30 days in arrears;
- An additional forbearance measure is required during the probation period;
- The customer meets another of the defined criteria for non-performance.

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

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

Details of forborne exposures are shown in Note 5.7 Impairment losses/gains on financial assets – IFRS 9 ECL.

**Rating models**
In order to regularly assess customers' creditworthiness, the HYPO NOE Group uses various rating modules, as a range of financial indicators and assessment criteria are available and appropriate for the accurate evaluation of a multiplicity of exposures. Allocation to a given rating module or model depends on the customer group concerned. Customers are assigned to a group on the basis of the Basel segments, the industry in question, a company's legal form and its operating performance. The main inputs for the rating modules are annual financial statements, details of household budgets, as well as account and customer data in the case of automated credit ratings.

Customers are subject to a regular rating process after conclusion of a transaction. When preparing a rating in response to an application in connection with a transaction or review, the market-facing units submit a rating proposal which is then confirmed and approved by Operating Credit Risk Management. In the case of retail customers, the rating is approved by an authorised staff member.

In that of behaviour ratings for retail customers, assessment of creditworthiness takes place on a quarterly basis and the results are automatically entered in the Bank's system.

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

In general, the most recent rating up to 359 days prior to creation of the transaction is taken as the initial rating in accordance with the revised rating table. Consideration is also being given to including a 29-day grace period in the period after the recognition of the transaction. If no rating is available within this period, the first rating after the transaction has been recognised is taken as the initial rating. The following criteria apply:

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

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

In the case of securities, based on the customer reference number and creation date of the transaction (purchases are reported separately as at the respective purchase date), a rating table is used to determine the rating; a rating within a period of between 719 days before and 29 days after a transaction is created is classified as a valid rating.

**Measurement parameters for the calculation of default risk and expected credit loss**
In accordance with IFRS, the estimates applied under the HYPO NOE Group's measurement parameters correspond to the highest expected value, i.e. they are not conservative assumptions or extreme values.

**Probability of default (PD)**
The internal rating for all products (current account deposits, loans, leases, securities, guarantees, short-term loans and bills of exchange) is generally applied when estimating the probability of default. This forms the basis for calculating the rate of change of the PD in the quantitative staging process, as well as the expected credit loss and lifetime expected credit loss.

Ratings for transactions given an income producing real estate rating or project finance rating are carried out using a slotting approach, in accordance with Art. 158(6) CRR. In order to permit a stage transfer on this basis, the various slots must correspond to one of the rating grades on the Group's master scale (see Note 8.6 Risk management). The PD curve is drawn up on the basis of this "slot-implied" rating, which permits a staging comparison based on the long-term PD as well as an ECL computation.

The starting point for determining the lifetime PD curve is a breakdown of the entire portfolio by credit risk factors. The Group distinguishes between four risk exposure classes: public sector, retail customers, corporates and banks. The first step involves creating a multi-year (lifetime) PD curve that reflects the through-the-cycle (TTC) methodology. Owing to the Bank's size and risk-averse business model, sufficient empirical default and migration data to arrive at an empirical lifetime PD curve are only available in the retail business. Empirical default data covering up to five years can be used to determine the one-year PDs on the master scale, and also form the basis for plotting the TTC lifetime PD curve. Consequently, external data in the public domain are used to generate the TTC PD curves for other risk exposure classes.

**Through the cycle (TTC) PD curves**
The HYPO NOE Group has adopted the following approach in order to derive multi-year probabilities of default in line with the TTC approach.

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

Corporates, public sector and financials risk exposure class
As the Bank does not have sufficient internal data recourse is made to external data in the public domain as the basis. Sovereign default is extremely rare, and time series of empirical default rates are not available. By their nature, migration matrixes are based not just on pure default data, but also on all changes in the ratings of the customers under examination. In other words, all available empirical migration data are used for the estimate. With regard to public sector customers, the Bank draws on external, publicly available one-year migration matrixes for sovereigns, and obtains cumulative 50-year PD curves by means of exponentiation (time-discrete, autonomous Markov chain process). Regardless of whether they are generated using external or internal data, migration matrixes often need to be smoothed in order to ensure the economic plausibility of the data and create a monotonic curve. Smoothing was also required for the sovereign PD curves generated using the migration model. Again due to the lack of internal data on default, external migration data in the public domain are relied on for the corporates and banks exposure classes. In contrast to sovereigns, sufficient data on one-year default rates are available for these classes. In order to incorporate these data as efficiently as possible in the estimate, fitting was chosen to generate the multi-year PD curves, as this employs empirical default data. Based on the empirical cumulative default rate data, fitting is carried out for corporates and banks by means of adjusted Weibull distributions.

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

In line with the regional focus for the HYPO NOE Group’s lending business, the model uses publicly available, regularly updated forecasts and OeNB data on historical developments as macroeconomic indicators. Using economic judgement, an appropriate preliminary selection was made from the available indicators. Those selected were:
- GDP growth (%);
- Unemployment rate (%);
- GDP per person in gainful employment (labour productivity);
- Export growth (%);
- Increase in private consumption (%).

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

In both of the risk exposure classes concerned, the fully calibrated model permits the application of the following macroeconomic indicators, which explain the connection between macroeconomic trends and the probability of default in a statistically significant and economically meaningful manner.
- GDP growth (%);
- Export growth (%);
- Increase in private consumption (%).

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

Owing to the application of a realisation period, the HYPO NOE Group includes haircuts in the LGD estimate. This results in material reductions in retail and corporate LGD. The realisation period is calculated using internal empirical default data. The haircut feeds into the estimate of LGD by discounting the expected recovery (i.e. 100% less LGD) over the realisation period and by including the average rate of interest on the portfolio. Internal analysis does not give rise to a material realisation period for the LGDs for the other customer groups. This is mainly due to short-term restructuring measures based on statutory frameworks that enable sovereigns and financial institutions to continue the smooth operation of activities that are important for the general public. For this reason, a specific resolution procedure has been developed for banks. This is designed to restore a bank's viability and ability to restructure in the space of a weekend by converting bail-in debt capital into equity.

**LGD for collateralised loan portions**
EAD is split into a collateralised and an uncollateralised portion for each individual transaction. The values of collaterals to be recognised (i.e. the mortgaging values) are compared with the EAD and offset up to the maximum EAD. The LGD for the collateralised portion of a loan is then assigned to the collateral in question.

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

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

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

**Early repayments**
The impact on Stage 1 is small owing to the observation period of one year. Transfer from Stage 1 to Stage 2 results from a significant increase in credit risk and the related deterioration in the borrower's solvency makes early repayment unlikely. Actually, in such cases it can be assumed that the borrower is unable to make early repayment. For this reason, prepayment profiles are not taken into account in Stages 1 and 2.

**Instruments with no fixed maturity date**
The maturity of perpetual instruments is calculated for banks on a case-by-case basis, in accordance with paragraphs 5.5.20 and B5.5.40 IFRS 9. The purchase date is assumed to be the opening date, and the initial rating as at the purchase date is therefore recorded. An empirical analysis of historic repayment behaviour for these accounts is used to determine the maturity.

### 3.3.3 MODIFICATIONS

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

If such a substantial modification is determined, the existing financial instrument must be derecognised and a new, modified instrument recognised. If it is decided that the modification is not substantial in terms of the criteria, a modification gain or loss is recognised for the financial instruments measured at amortised cost. Contractual modifications made in past years were tested for the substantiality of their effects. In particular, non-contractual adjustments to margins and terms were examined in detail, as these give rise to the main quantitative effects of modifications in the meaning of paragraph 5.4.3 IFRS 9.

Purchased or originated credit-impaired (POCI) loans are given special treatment by the IFRS 9 standard. In IFRS this is a derecognition and re-recognition of the contract. In this case, the expected cash flows are discounted at the credit-adjusted effective interest rate (CEIR) and the present value recognised. The change in present value results in an impairment loss or gain on subsequent measurement. Even if the loan delinquency is resolved, no stage transfer is carried out.

POCI assets are financial assets that are credit-impaired on initial recognition. POCI assets can generally arise in three ways:

- **Purchase of POCI assets** through the purchase of a financial instrument that is significantly impaired due to a deterioration in its rating (purchased credit impaired). This is when a financial asset is purchased at a deep discount that reflects the incurred credit losses.
- **New business with customers with default ratings** (fresh money and bridge loans): purchase of new instruments that leads to a significant increase in exposure from the uncollateralised portion while the instruments are initially subject to intensive care management (a cure is still uncertain).
- **Substantial modification to a Stage 3** financial asset attributable to credit ratings, leading to the derecognition of the original instrument and recognition of a modified, impaired instrument (originated credit impaired).

## 3.4 Financial assets

IFRS 9 classifies financial assets according to the following categories:

**1. Financial assets – HFT**

Financial assets held for trading (and thus with the objective of generating a profit in the near term), as well as derivatives with positive fair values that do not qualify for hedge accounting, are reported under this item. At HYPO NOE Landesbank für Niederösterreich und Wien AG, this item only included positive fair value arising from interest rate and foreign exchange derivatives as at 31 December 2018. The carrying amount corresponds to the "dirty" fair value (including any accrued interest). The finance charge is reported under "Net interest income" (see Notes 5.1 Interest and similar income and 5.2 Interest and similar expense), while the "clean" fair value is reported as a measurement gain or loss (Note 5.4 Net gains or losses on financial assets and liabilities).

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

Interest payments and accrued interest arising from derivatives are calculated on the basis of the contractual terms of the transaction – the effective interest method is not applied – and are offset across both legs. Amortisation of any swap fees or option premiums received up front are recognised in profit or loss under "Interest and similar income measured using the effective interest method".

**2. Financial assets – mandatorily FVTPL**

This category includes financial assets not assigned to either the "hold to collect" or "hold to collect and sell" business model, as well as assets assigned to the "hold to collect" model that do not meet the SPPI criteria, meaning that the cash flows do not consist solely of payments of principal and interest.

At the HYPO NOE Group this relates in particular to loans allocated to the "hold to collect" business model that include an interest component detrimental to SPPI. The change in fair value is recognised in profit or loss under "Net gains or losses on financial assets and liabilities" (see Note 5.4). Details of the calculation of fair value can be found in Note 8.1.1 Financial instruments measured at fair value. Interest is reported under "Interest and similar income" (see Note 5.1).

**3. Financial assets – FVOCI**

The category includes non-derivative financial assets. These are debt instruments allocated to the "hold to collect and sell" business model in accordance with paragraph 4.1.2 IFRS 9, where all cash flows are solely payments of principal and interest, as well as equity instruments not held for trading for which the HYPO NOE Group has exercised the elective right under paragraph 5.7.5 IFRS 9 to recognise the change in fair value in other comprehensive income.

Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is determined using observable inputs (Level 2). Unobservable inputs may also be applied (Level 3). The methodology used to determine fair value is described in detail in Note 8.1.1 Financial instruments measured at fair value. Proceeds from the disposal of debt instruments are recognised in profit or loss in the consolidated statement of comprehensive income. The resulting gain or loss is reported under "Net gains or losses on financial assets and liabilities" (see Note 5.4). IFRS 9 does not demand assessment of this category to identify embedded derivatives requiring separation from the host contract. Interest is reported under "Interest and similar income" (see Note 5.1). Dividends arising from equity instruments are reported in the consolidated statement of comprehensive income under "Dividend income".

**4. Financial assets – AC**
This category includes non-derivative financial assets assigned to the "hold to collect" business model, where the cash flows solely represent payments of principal and interest, and the assets are not measured at fair value through profit or loss, as permitted by paragraph 4.1.4 IFRS 9.

Measurement is at amortised cost including impairment losses or gains in accordance with paragraph 5.5 IFRS 9 (see Note 5.7 Impairment losses/gains on financial assets – IFRS 9 ECL); gains and losses are amortised over the remaining lives of the assets using the effective interest method. Interest is reported under "Interest and similar income" (see Note 5.1). IFRS 9 does not demand assessment of this category to identify embedded derivatives requiring separation from the host contract. Additional information on the fair value of loans and receivables measured at amortised cost is given under Note 8.1 Fair value disclosures. This category consists entirely of bonds, public debt certificates and other fixed-income securities, as well as loans.

**5. Positive fair value of hedges (hedge accounting)**
The principles for hedge accounting are outlined in Note 3.6, below.

## 3.5 Financial liabilities

IFRS 9 breaks financial liabilities down into the following measurement categories:

**1. Financial liabilities – HFT**
Financial liabilities held for trading (and thus with the objective of generating a profit in the near term), as well as derivatives with negative fair values that do not qualify for hedge accounting, are reported under this item.

As at 31 December 2018 it only included negative fair value arising from interest rate and foreign exchange derivatives (see Note 6.15 Financial liabilities – HFT).

The carrying amount corresponds to the "dirty" fair value (fair value including any accrued interest). The finance charge is reported under "Net interest income" (see Note 5.1 Interest and similar income and 5.2 Interest and similar expense), while the remainder – the "clean" fair value – is reported as a measurement gain or loss (Note 5.4 Net gains or losses on financial assets and liabilities). Where available, market prices are applied in the determination of fair value (Level 1). In the absence of market prices, fair value is determined using 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.

**2. Financial liabilities – AC**
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.

Financial liabilities measured at AC must be assessed to identify embedded derivatives requiring separation from the host contract. Separation is mandatory for this category if the contractual terms for the embedded structure meet the definition of a derivative, and if the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract. There were no structures requiring separation as at 31 December 2018.

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

**3. Financial liabilities – FVO**
When the fair value option (FVO) is taken, financial liabilities that are not held for trading can be irrevocably assigned to this category, and subsequently measured at fair value through profit or loss. Realised gains and losses, and unrealised measurement gains and losses are recognised in profit or loss. Interest is reported under "Interest and similar expense" (Note 5.2).

However, this classification may only be made if:
- The financial instrument contains one or more significant embedded derivatives;
- It eliminates or significantly reduces a measurement or recognition inconsistency;
- 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.

**4. Negative fair value of hedges (hedge accounting)**
The principles for hedge accounting are outlined in Note 3.6, below.

## 3.6 Hedge accounting

In the course of its risk management processes, the HYPO NOE Group has identified risks that have been economically hedged using derivative-based strategies.

Hedges that meet the IFRS criteria for hedge accounting are recognised in accordance with the relevant standards.

Derivative transactions concluded by the Group as part of its hedging strategy that do not qualify for hedge accounting are reported as assets held for trading. This is the case when, for instance, customer derivatives are hedged using other, offsetting derivatives.

As at 31 December 2018, this category consisted solely of fair value hedges. A hedging relationship arises if a hedged underlying (or group of underlyings) can be unambiguously assigned to one or more hedges. Bottom layer hedges are used as a special form of fair value hedge for a range of fixed-interest loans. Here, a bottom layer for a group of like underlyings qualifies for hedge accounting, and it is assumed that following the expected prepayment this layer will in all likelihood remain in place until the hedge matures. In this case, precise allocation of the individual underlyings to the remaining bottom layer is not required.

Changes in the reference rate (primarily Euribor) are one of the main drivers of fluctuations in the market prices of fixed-rate financial instruments. In line with its risk management strategy, the Group ensures that interest rate risk remains within specified limits (see Note 8.6 Risk management) by means of hedging. Hedging instruments convert the fixed interest rate in the underlying into a floating rate pegged to the reference rate, which in turn mitigates the market risk arising from changes in interest rates. The HYPO NOE Group hedges interest rate risk arising from fixed-rate assets by means of interest rate swaps which are reported under "Financial assets – AC", "Financial assets – FVOCI" and "Financial liabilities – AC" on the statement of financial position. Interest rate and foreign exchange risk on own issues denominated in foreign currencies are both hedged by means of cross-currency interest rate swaps. The fixed leg of the swap represents the hedged risk component of the underlying. Therefore, assets are hedged by trading swaps with a fixed-rate payer side and a floating-rate receiver side, while liabilities are hedged by means of swaps with a fixed-rate receiver side and a floating-rate payer side. Interest rate options are used to hedge interest rate risk arising from interest rate caps on variable-rate financial instruments (purchased caps for assets) and recognised as fair value hedges, provided they qualify for hedge accounting. Any changes in contractual nominal values or call rights on the underlyings are replicated in the hedging instrument.

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

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

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

Application of fair value hedge accounting helps to avoid accounting mismatches, i.e. differences in the presentation of economically related transactions arising from the described hedging relationship (or the measurement of interest rate risk components qualifying for hedge accounting that arise from the hedging relationship) in the statement of comprehensive income.

Derivatives in fair value hedges are always recognised in profit or loss. The carrying amount of underlyings recognised in "Financial assets – AC", adjusted for the measurement of the hedged risk, is recognised in profit or loss. For underlyings stated under "Financial assets – FVOCI", the OCI reserve is adjusted and the adjustment taken to profit or loss (for information on basis adjustments, see Note 8.2.2 Underlying transactions in fair value hedges).

An analysis of the fair values of hedging instruments by statement of financial position items for the underlying transactions hedged is shown in Note 6.6 Positive fair value of hedges (hedge accounting) and Note 6.18 Negative fair value of hedges (hedge accounting). Details of carrying amounts and basis adjustments of underlyings are presented in Note 8.2.2 Underlying transactions in fair value hedges.

In the case of fair value hedges, measurement of the hedging instruments and the largely offsetting measurement of the risk hedged in respect of the underlyings are recognised in the statement of comprehensive income as net measurement gains or losses on hedges under "Net gains or losses on financial assets and liabilities" (Note 5.4). This item shows the total net ineffectiveness of hedge accounting (see Note 5.4 Net gains or losses on financial assets and liabilities).

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

In the event of the termination of hedging instruments in fair value hedges, the portion of the intrinsic value attributable to any closeout fees is immediately taken to profit or loss under "Net gains or losses on financial assets and liabilities" (see Note 5.4). The same applies to the most recent applicable measurement of the risk qualifying for hedge accounting (basis adjustment) on disposal of the underlyings (see Note 5.4 Net gains or losses on financial assets and liabilities). The procedures for reporting early repayment of underlyings in the statement of comprehensive income were standardised during the period under review.

If hedge accounting is discontinued and the underlying remains on the balance sheet, the most recent applicable basis adjustment for the "AC" category must be amortised over the residual life of the instrument using the EIR method and recognised in net interest income. An identical approach is used for the most recent applicable adjustment of the OCI reserve for "Financial assets – FVOCI" for hedge accounting purposes. The financial statements presented in this annual report do not include any amortisation under this item.

Hedge accounting ineffectiveness may be attributable to various conditions, specific characteristics or other basis risks (e.g. multiple curve approaches or OIS discounting of collateralised derivatives). These effects are regularly analysed and monitored.

For the HYPO NOE Group, the main risks associated with hedge accounting and thus the main cause of the ineffectiveness reported are:

- Basis risks arising from differing discount curves; and
- FX basis risks.

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

FX basis risks arise when the FX basis components in the hedged underlying do not qualify for hedge accounting, but are included in the valuation of the hedge instrument. This leads to the contradictory situation that when the FX basis risk is adequately hedged by a cross-currency swap with matching maturity there is a risk of earnings fluctuations over the term in response to changes in the FX basis spread, due to their inclusion in the valuation of the FX derivative. In economic terms, no risk arises over the entire term of such FX hedges, as the periodic effects on earnings completely cancel each other out. For some of the cross-currency swaps qualifying for hedge accounting, the Group has exercised the right under IFRS 9 to recognise the FX basis spread as the cost of hedging in other comprehensive income. This in turn limits the ineffectiveness reported in the statement of comprehensive income (see Note 8.2.4 Effects of hedge accounting on equity).

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

## 3.7 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 to the lessee, 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 "Financial assets – AC", taking account of any residual values (Note 6.5). Agreed lease payments are apportioned between the finance charge, recognised in profit or loss, and the reduction in the outstanding liability. The finance charge is reported under "Interest and similar income" (Note 5.1).

**The HYPO NOE Group as a lessee**
All the lease agreements concluded by the HYPO NOE Group as a lessee are operating leases. Lease payments are carried as administrative expenses (Note 5.6 Administrative expenses).

## 3.8 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 likewise reported under "Investment property", provided that the conditions for separate letting or sale are met. Further details are provided in Note 6.8 Investment property.

When measuring investment property, the Group applies the cost model in accordance with paragraph 56 IAS 40. These properties are carried at cost less accumulated depreciation. 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 alterations
  25-50 years

Current income and expenses are taken to profit or loss through "Net other operating income" and reported under "Net gains or losses on investment property". Detailed information on fair value measurement is provided under Note 8.1 Fair value disclosures.

## 3.9 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. The HYPO NOE Group held no self-constructed intangible assets in 2018.

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 accumulated depreciation. Breakdowns of intangible assets, and property, plant and equipment can be found in Notes 6.9 and 6.10 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 alterations
  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 Note 5.6 Administrative expenses and 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 5.5).

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 difference, this is reported in Note 8.1 Fair value disclosures.

## 3.10 Other assets

"Other assets" (Note 6.13) largely relates to other non-bank receivables (e.g. trade receivables and amounts due from the tax authorities in respect of other taxes).

## 3.11 Provisions

Information on provisions can be found in Note 6.19 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 at the present value of the defined benefit obligation. Actuarial gains and losses on the termination benefit and pension provision are recognised in equity, under the "IAS 19 reserve" item, 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. Account was taken of the progressive increase in the retirement age for women from 60 to 65.

The discount rate applied to measurement at the end of the reporting period was 1.8% p.a. (2017: 1.3% 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 2.3% p.a. (2017: 2.0% p.a.) and future pension increases of 2.0% p.a. (2017: 2.0% p.a.) were assumed. As in 2017, an adjustment of 7.0% p.a. for employee turnover was applied to the jubilee benefit provision.

Measurement was based on the biometric estimates contained in the latest Austrian actuarial table for pension insurance, AVÖ 2018 – P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, Angestelltenbestand. Use of this table for the measurement of employee benefit obligations is recommended by the Actuarial Association of Austria.

**Other provisions**
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 can be found in Note 6.19 Provisions, as can an explanation of the amounts.

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

Allocations to and reversals of items reported as "Other provisions" are mainly shown under "Net other operating income" (Note 5.5). Movements in provisions for credit risks are reported in the statement of comprehensive income, under "Impairment losses/gains on financial assets – IFRS 9 ECL" (Note 5.7).

## 3.12 "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. 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 2018 and 2017, the HYPO NOE Group did not enter into any sale and repurchase agreements as a transferor.

## 3.13 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.

## 3.14 Tax assets and liabilities

HYPO NOE Landesbank für Niederösterreich und Wien AG is liable to tax in Austria. Since 2008, use has been made of the option of group taxation, with HYPO NOE Landesbank für Niederösterreich und Wien AG acting as the tax group parent company. To this end, the parent has concluded group taxation agreements governing tax contributions, reporting duties and due dates with each group member.

Current and deferred tax assets and liabilities are reported under the relevant items in the consolidated statement of financial position (Note 6.12 Tax assets and 6.20 Tax liabilities).

Current tax assets and liabilities are measured at current rates and the amounts expected to be paid to/recovered from the taxation authorities.

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 and liabilities are offset within the tax group, in accordance with paragraph 74 IAS 12.

Deferred tax assets are recognised for tax loss carryforwards if it is likely that sufficient taxable profit will be available. The HYPO NOE Group's tax loss carryforwards are recognised in Austria and are available for use without time limit. The relevant calculations are based on an updated budget for each company, and a distinction is made between realisable and non-realisable tax loss carryforwards. The 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 5.9 Income tax expense) if the underlying item is recognised outside profit or loss (e.g. "Reserve made up of financial assets – FVOCI").

# 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 the exchange rates of cash and cash equivalents. "Cash flows from operating activities" are presented according to the indirect method, while those from investing and financing activities are shown using the direct method.

"Cash flows from **operating activities**" relate in the main to cash inflows and outflows from "Financial assets – AC", "Financial assets – mandatorily FVTPL", "Financial assets – FVOCI" and "Financial liabilities – AC". When reconciling the profit for the year before non-controlling interests, non-cash items are removed. Adjustments are made for depreciation and amortisation, impairment and write-ups of property, plant and equipment, intangible assets and investment property, and allocations to and reversals of provisions and risk provisions. Gains on the disposal of financial assets and property, plant and equipment, which form part of "Cash flows from investing activities", and measurement gains on financial assets and liabilities are also adjusted, as are sundry items. Sundry items primarily include non-cash items such as measurement gains and losses on investments accounted for using the equity method, on "Financial assets and liabilities – HFT", 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".

"Cash flows from **investing activities**" largely concern cash inflows and outflows from investments in and disposals of property, plant and equipment, and investment property. As in the previous period, there were no significant cash inflows arising from the acquisition of subsidiaries in 2018. The 2018 figures include a cash flow arising from the disposal of a subsidiary. This relates to the disposal of a property owned by the Group.

Dividends paid to owners of the parent including minority interests represent the sole component of "Cash flows from **financing activities**".

**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.

Cash and cash equivalents decreased by EUR 39,066thsd in 2018, to stand at EUR 417,130thsd. This mainspring of this item is cash flows from operating activities. For example, "Financial liabilities – AC" fell more heavily than "Financial assets". Details can also be found in the consolidated statement of cash flows.

# 5. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Application of IFRS 9 resulted in the introduction of new measurement categories for financial assets and liabilities. Paragraphs 4 and 5 IFRS 9, in particular, contain extensive changes as compared to IAS 39. The figures are not comparable to those of previous period.

## 5.1 Interest and similar income

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Interest and similar income not measured using the effective interest method** | **218,442** | **N/A** |
| Financial assets and liabilities – HFT | 97,105 | N/A |
| Financial assets – mandatorily FVTPL | 3,638 | N/A |
| Hedges (hedge accounting) | 115,489 | N/A |
| Other interest and similar income | 2,210 | N/A |
| | | |
| **Interest and similar income measured using the effective interest method** | **240,769** | **N/A** |
| Financial assets – FVOCI | 22,313 | N/A |
| Financial assets – AC | 188,241 | N/A |
| Current finance lease income | 30,215 | N/A |
| | | |
| **Interest and similar income from:** | **N/A** | **499,864** |
| Loans and receivables (LAR) | N/A | 182,441 |
| Impaired loans and advances (unwinding) | N/A | 2,239 |
| Available-for-sale (AFS) assets | N/A | 44,146 |
| Assets measured using the fair value option (FVO) | N/A | 787 |
| Assets held for trading (HFT) | N/A | 98,749 |
| Hedges (hedge accounting) | N/A | 146,019 |
| Current lease income | N/A | 25,226 |
| Other interest income | N/A | 257 |
| **Total** | **459,211** | **499,864** |

Interest capitalised by the Group in accordance with paragraph 26(a) IAS 23 in 2018 amounted to EUR 2,848thsd (2017: EUR 3,200thsd). The average capitalisation rate was 1.05% (2017: 1.01%).

"Net interest income" rose by EUR 3,072thsd year on year to EUR 111,933thsd. While the profitability of the retail business was unchanged and interest rates remained low, interest income from leases improved in 2018.

## 5.2 Interest and similar expense

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Interest expense on:** | | |
| Financial assets and liabilities – HFT | -94,392 | N/A |
| Financial liabilities – AC | -151,770 | N/A |
| Hedges (hedge accounting) | -101,453 | N/A |
| | | |
| **Interest expense on:** | | |
| Liabilities measured at cost (LAC) | N/A | -185,875 |
| Liabilities held for trading (HFT) | N/A | -95,606 |
| Hedging instruments (hedge accounting) | N/A | -109,553 |
| **Total** | **-347,615** | **-391,034** |

The main influence on interest expense was the absence of short-term liquidity provision costs due to the scheduled redemption of state government guaranteed bonds since the second half of 2017 and the improved refinancing structure during the reporting period.

## 5.3 Net fee and commission income

Fee and commission income from services rendered over a period of time (mostly derived from payment transactions) is recognised over the period of service provision. Fee and commission income that is an integral component of the effective rate of interest on a financial instrument is reported as interest income. Income from transaction-related services (fee and commission income from securities business, and from the intermediation of home loan saving agreements and insurance contracts) is recognised when the service has been rendered in full.

| 2018, EUR '000 | Public Sector | Real Estate Customers | Retail and Corporate Customers | Treasury & ALM | Real Estate Services | Corporate Center | Total |
|---|---|---|---|---|---|---|---|
| **Fee and commission income** | **3,198** | **1,071** | **13,777** | **-199** | **–** | **-3** | **17,843** |
| Securities and custody account business | 221 | 14 | 4,742 | 72 | – | – | 5,049 |
| Payment transactions | 694 | 665 | 5,222 | 23 | – | 1 | 6,605 |
| Foreign exchange, foreign notes and coins, and precious metals | 13 | 2 | 202 | 2 | – | – | 219 |
| Other services | 81 | 122 | 940 | – | – | -2 | 1,141 |
| Trust transactions | – | – | – | – | – | 1 | 1 |
| Other fee and commission income | 2,189 | 268 | 2,671 | -296 | – | -3 | 4,829 |
| **Fee and commission expense** | **-73** | **-8** | **-2,114** | **-856** | **-2** | **1** | **-3,052** |
| Securities and custody account business | 12 | – | -694 | -142 | – | – | -824 |
| Payment transactions | – | – | – | – | – | – | – |
| Other services | -41 | 1 | -231 | -361 | – | 1 | -631 |
| Other fee and commission expenses | -44 | -9 | -1,189 | -353 | -2 | – | -1,597 |
| **Total** | **3,125** | **1,063** | **11,663** | **-1,055** | **-2** | **-2** | **14,791** |

| 2017, EUR '000 | Public Sector | Real Estate Customers | Retail and Corporate Customers | Treasury & ALM | Real Estate Services | Corporate Center | Total |
|---|---|---|---|---|---|---|---|
| **Fee and commission income** | **3,130** | **787** | **14,081** | **642** | **–** | **231** | **18,871** |
| Securities and custody account business | 310 | 7 | 5,656 | 895 | – | – | 6,868 |
| Payment transactions | 575 | 574 | 5,252 | 5 | – | 178 | 6,584 |
| Foreign exchange, foreign notes and coins, and precious metals | 14 | 5 | 196 | – | – | – | 215 |
| Other services | 2,206 | 13 | 1,784 | -258 | – | 133 | 3,878 |
| Trust transactions | – | – | – | – | – | – | – |
| Other fee and commission income | 25 | 188 | 1,193 | – | – | -80 | 1,326 |
| **Fee and commission expense** | **-125** | **-25** | **-2,460** | **-880** | **–** | **–** | **-3,490** |
| Securities and custody account business | -79 | 3 | -1,134 | -610 | – | – | -1,820 |
| Payment transactions | -5 | -5 | -893 | -270 | – | 25 | -1,148 |
| Other services | -1 | -1 | -13 | – | – | 1 | -14 |
| Other fee and commission expenses | -40 | -22 | -420 | – | – | -26 | -508 |
| **Total** | **3,005** | **762** | **11,621** | **-238** | **–** | **231** | **15,381** |

Net fee and commission income edged down by EUR 590thsd in 2018, to EUR 14,791thsd. The decline chiefly reflected the previous year's non-recurring income from securities services.

## 5.4 Net gains or losses on financial assets and liabilities

"Net gains or losses on financial assets and liabilities" are largely made up of "Measurement gains or losses" and "Net gains or losses arising from the derecognition of financial assets" (paragraph 20A IFRS 7). "Measurement gains or losses" include the net gains or losses on disposals, on financial assets and liabilities, and on hedges.

The derecognition gains or losses contain the net gains or losses through profit or loss on derecognition reported under "Financial assets – AC" and "Financial assets – FVOCI" (recycling).

All gains and losses on fair value measurement are carried under "Net gains or losses on financial assets and liabilities". This item includes the effects of measurement of financial instruments mandatorily classified as at FVTPL, HFT or FVO. The net measurement gains or losses contained in "Financial assets – AC" and "Financial assets – FVOCI" also include expenses arising from direct write-offs, as well as gains or losses on non-substantial modifications.

The net gains or losses on the measurement of hedged risk with respect to underlyings (basis adjustments) and the corresponding valuation of the hedges are shown under the net measurement gains or losses on hedges. The net measurement gains or losses on hedges (hedge accounting) represent the total ineffectiveness of fair value hedges. The reasons for such ineffectiveness are the basis risks explained in detail in Note 3.6 Hedge accounting.

The effects of the "Gains or losses arising from the derecognition of financial assets" result from substantial modifications to agreements.

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Net measurement gains or losses on:** | **14,233** | **N/A** |
| **Disposals** | **1,690** | **N/A** |
| Financial assets – FVOCI | 1,690 | N/A |
| **Financial assets and liabilities** | **12,415** | **N/A** |
| Financial assets – AC | -459 | N/A |
| Financial assets – mandatorily FVTPL | 14,735 | N/A |
| Financial assets and liabilities – HFT | 1,639 | N/A |
| Financial assets and liabilities – FVO | -3,500 | N/A |
| **Hedges** | **128** | **N/A** |
| Net gains or losses on hedged underlying transactions (fair value hedges) | -8,710 | N/A |
| Net gains or losses on hedges (fair value hedges) | 8,838 | N/A |
| **Net gains or losses arising from the derecognition of financial assets** | **–** | **N/A** |
| Financial assets – AC | – | N/A |
| Financial assets – FVOCI | – | N/A |
| **Total** | **14,233** | **N/A** |

There were net losses of EUR 41thsd on non-substantial modifications in the course of 2018. In consequence, the net carrying amount of financial assets affected by non-substantial modifications changed from EUR 15,812thsd before modifications to EUR 15,770thsd after them.

The contractual outstanding amount of written-off financial assets that are still subject to execution measures is EUR 4,886thsd.

The net gains or losses on disposal of financial assets measured at FVOCI include routine disposals of bonds attributed to the "hold to collect and sell" business model.

"Net gains or losses on financial assets and liabilities" largely relate to net gains or losses on financial assets mandatorily measured at FVTPL; see Note 8.1 Fair value disclosures for further details.

The table below shows the basis adjustments to underlyings, net gains or losses on measurement of hedges, and resultant hedge ineffectiveness, itemised according to the accounting treatment of the underlying transactions.

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

| EUR '000 | 31 Dec. 2018<br>Net gains or losses on basis adjustments to underlyings | Net gains or losses on the measurement of hedges | Ineffectiveness |
|---|---|---|---|
| **Assets** | | | |
| **Financial assets – FVOCI** | **-9,860** | **9,970** | **110** |
| Bonds | -9,860 | 9,970 | 110 |
| **Financial assets – AC** | **-12,632** | **13,354** | **722** |
| Loans | -12,782 | 13,454 | 672 |
| Bonds | 150 | -100 | 50 |
| **Equity and liabilities** | | | |
| **Financial liabilities – AC** | **13,782** | **-14,486** | **-704** |
| Demand and time deposits | 882 | -888 | -6 |
| Debts evidenced by certificates | 12,900 | -13,598 | -698 |
| **Total** | **-8,710** | **8,838** | **128** |

The change in the net gains or losses on hedges as compared to the net gains or losses on hedge accounting for 2017 is chiefly attributable to the harmonisation of the treatment with that of the premature termination of hedge accounting mentioned in Note 3.6 Hedge accounting.

During the reporting period there was an improvement in "Net gains or losses on hedges", and a reduction of EUR 3,541thsd in "Net other operating income/expenses". In 2017 the final basis adjustments for prematurely redeemed underlyings contained in "Net other operating income/expenses" totalled EUR 4,676thsd.

## NET TRADING INCOME

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Interest rate transactions | N/A | 5,734 |
| Foreign exchange transactions | N/A | -5,731 |
| Other transactions | N/A | -512 |
| **Total** | **N/A** | **-509** |

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

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Income from AFS financial assets** | **N/A** | **468** |
| Gains on disposal | N/A | 468 |
| **Expenses arising from AFS financial assets** | **N/A** | **-631** |
| Depreciation | N/A | -631 |
| **Total** | **N/A** | **-163** |

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

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Loans | N/A | 57 |
| **Total** | **N/A** | **57** |

## NET GAINS OR LOSSES ON HEDGES (HEDGE ACCOUNTING)

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Net gains or losses on measurement of underlying transactions | N/A | 21,092 |
| Net gains or losses on measurement of hedging instruments | N/A | -26,461 |
| **Total** | **N/A** | **-5,369** |

## 5.5 Net other operating income/expenses

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Other income** | **45,327** | **49,987** |
| Disposals of intangible assets, and property, plant and equipment | 292 | 2,045 |
| Income from the reversal of provisions | 1 | 330 |
| Income from gains on foreign currency translation | – | 6,788 |
| Income from gains on deconsolidation | 8,286 | – |
| Gains on disposal of receivables and promissory notes | N/A | 581 |
| Gains on investment property | 2,767 | 2,761 |
| Other rental income | 286 | 357 |
| Sundry other income | 33,695 | 37,126 |
| **Other expenses** | **-35,426** | **-19,374** |
| Disposals of intangible assets, and property, plant and equipment | -261 | -82 |
| Expenses arising from the recognition of provisions | -19,228 | -30 |
| Expenses arising from foreign currency translation | -126 | – |
| Losses on disposal of receivables and promissory notes | N/A | -33 |
| Expenses arising from investment property | -1,949 | -1,932 |
| Sundry other expenses | -13,862 | -17,297 |
| **Other taxes** | **-148** | **-90** |
| **Total** | **9,753** | **30,523** |

Detailed information on the item "Expenses arising from the recognition of provisions" can be found under Note 6.19 Provisions.

"Sundry other income" includes net losses of EUR 126thsd (2017: net gains of EUR 6,788thsd) on currency translation (see Note 5.4 Net gains and losses on financial assets and liabilities). This item also includes income of EUR 5,451thsd (2017: EUR 4,983thsd) from administrative and intermediation fees, and net gains on debt repurchases.

## NET GAINS ON DISPOSAL OF CONSOLIDATED SUBSIDIARIES

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Financial assets – AC | 554 | – |
| Other assets | 11,301 | – |
| **Total assets** | **11,854** | **–** |
| Financial liabilities – AC | 11,500 | – |
| **Total liabilities** | **11,500** | **–** |
| Proceeds of disposal | 8,640 | – |
| - Assets disposed of | -11,854 | – |
| + Liabilities disposed of | 11,500 | – |
| **Net gains or losses on disposal of consolidated subsidiaries** | **8,286** | **–** |
| **Net gains or losses on disposal of consolidated subsidiaries through profit or loss** | **8,286** | **–** |

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Consideration received in cash and cash equivalents | 8,640 | – |
| **Cash proceeds of the disposal of subsidiaries** | **8,640** | **–** |
| Amount outstanding from the corporate transaction | – | – |

Reported net gains or losses on disposal of consolidated subsidiaries are attributable to a share deal involving a property near the centre of Vienna due to a change in the Bank's branch concept (see Note 3.1 Basis of consolidation).

## NET GAINS OR LOSSES ON INVESTMENT PROPERTY

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Rental income | 2,417 | 2,495 |
| Other income | 350 | 265 |
| Depreciation | -1,684 | -1,691 |
| Expenses arising from let investment property | -261 | -240 |
| Expenses arising from vacant investment property | -4 | -1 |
| **Total** | **818** | **828** |

## 5.6 Administrative expenses

"Administrative expenses" comprise the sub-items "Staff costs", "Other administrative expenses", and "Depreciation, amortisation and impairment". The breakdown into these sub-items was as follows:

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Staff costs | -62,532 | -63,833 |
| Other administrative expenses | -45,407 | -46,753 |
| Depreciation, amortisation and impairment | -4,833 | -5,221 |
| **Total** | **-112,772** | **-115,806** |

### 5.6.1 STAFF COSTS

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Wages and salaries | -48,331 | -49,672 |
| Phantom-share-based cash incentives | -16 | -65 |
| Pensions and other employee benefit expenses | -14,201 | -14,161 |
| **Total** | **-62,532** | **-63,833** |

| | 2018 | 2017 |
|---|---|---|
| Average number of employees (incl. staff on parental leave) | 801 | 834 |

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Salaries of Management Board members** | **-2,987** | **-2,570** |
| Short-term employee benefits | -2,738 | -1,956 |
| Current remuneration | -2,363 | -1,307 |
| Post-employment benefits | -249 | -614 |
| **Supervisory Board members' remuneration (non-employees)** | **-99** | **-120** |
| **Supervisory Board members' salaries** | **-419** | **-754** |
| **Remuneration of key management (other than the members of the Management Board and Supervisory Board of the parent):** | **-5,508** | **-4,190** |
| Current remuneration | -4,410 | -3,435 |
| Other short-term employee benefits | -797 | -525 |
| Post-employment benefits | -277 | -222 |
| Other long-term benefits | -21 | -10 |
| Provision for termination benefits | -3 | 2 |

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Termination benefit expenses incl. provident fund for:** | **-1,263** | **-1,338** |
| Management Board | -22 | -504 |
| Key management | -125 | -80 |
| Other employees | -1,116 | -754 |
| **Pension expenses for:** | **-1,618** | **-1,428** |
| Management Board | -300 | -110 |
| Key management | -184 | -157 |
| Other employees (including former employees) | -1,134 | -1,161 |

2018 saw organisational changes, including a reduction in the membership of the Management Board from three to two during the second half of the year. For details see the "Human resource management" section of the operational and financial review.

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

The pensions of former Management Board members and their surviving dependants totalled EUR 348thsd (2017: EUR 341thsd). A total of EUR 805thsd was allocated to provisions (2017: nil).

The works agreement concluded by HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG to ensure provision of retirement, invalidity and surviving dependants' benefits was transferred to HYPO NOE Landesbank für Niederösterreich und Wien AG as part of the merger of the two companies. HYPO NOE Leasing GmbH concluded such an agreement in 2009. In order to implement these agreements, a pension fund contract was concluded with VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft; this was transferred to BONUS Pensionskassen Aktiengesellschaft in mid-2016. Conditional notice of termination of the pension fund contract was given in December 2017, and a tender procedure was held in 2018. The winner was APK Pensionskasse AG, which will be responsible from 1 January 2019 for administering the defined contribution entitlements of employees who had valid, permanent employment contracts as of 31 December 2018 and were already participating in the existing pension fund scheme, as well as employees taking up valid, permanent service contracts and meeting the eligibility conditions from 1 January 2019 onwards.

The contracts oblige the employer to contribute 2.7-3.2% of employees' eligible salaries (incl. administrative expenses and plus insurance tax) to the fund. The percentages applicable to senior management personnel are 4.2-6% and 10%. Following the merger, since 1 October 2017 the percentages previously applicable at the former HYPO NOE Gruppe Bank AG have been applied throughout the Group: 6% for heads of department and 10% for divisional heads. In the case of employees who joined the pension scheme on or before 31 December 2012, the employer's contributions vest five years after payments begin; in that of employees joining on or after 1 January 2013, the employer's contributions vest three years after payments begin. Eligibility for employer's contributions is conditional on five years' service; prior service may be counted. The contributions for 2018 amounted to EUR 1,186thsd (2017: EUR 1,058thsd).

Key management in the HYPO NOE Group comprises "identified staff". This encompasses those individuals who are directly or indirectly responsible for planning, managing and supervising the Group's activities. These individuals include the Management and Supervisory Board members. The list of key management including their names, functions and the Group companies of which they are employees is updated at the end of the reporting period.

### 5.6.2 OTHER ADMINISTRATIVE EXPENSES

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Premises | -4,801 | -4,772 |
| Office and communication expenses | -1,120 | -1,070 |
| IT expenses | -9,790 | -9,103 |
| Legal and consultancy costs | -3,438 | -3,906 |
| Advertising and entertainment costs | -4,731 | -4,641 |
| Warranty costs | -71 | 32 |
| Other administrative expenses | -21,456 | -23,293 |
| **Total** | **-45,407** | **-46,753** |

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Legal and consultancy costs include the following fees of the auditors of the consolidated financial statements:** | | |
| Annual audit | -459 | -494 |
| Other auditing services | -48 | -58 |
| Tax advice | -174 | -307 |
| Other services | -208 | -85 |
| **Total** | **-889** | **-944** |

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Other administrative expenses include:** | | |
| Financial stability contribution (bank tax) | -8,724 | -9,403 |
| Deposit insurance fund and resolution fund | -7,535 | -8,411 |
| Cost of compliance with company law | -617 | -652 |
| Training costs | -471 | -414 |
| Vehicle and fleet expenses | -913 | -1,016 |
| Insurance | -395 | -413 |
| Travel expenses | -304 | -366 |
| Cost of information procurement and payment transactions | -915 | -807 |
| Sundry other administrative expenses | -1,582 | -1,811 |
| **Total** | **-21,456** | **-23,293** |

The year-on-year reduction in administrative expenses is partly explained by a lower financial stability contribution, as well as lower contributions to the deposit insurance scheme and the resolution fund. Reductions in other administrative expense categories mainly reflect the success of the efficiency programme.

In addition to the statutory financial stability contribution, in 2016 all banks were required to pay a supplementary one-off contribution. At year-end 2016 the HYPO NOE Group decided to spread the one-off contribution across the four years up to 2020, as permitted by section 5 Stabilitätsabgabegesetz (Stability Contribution Act). As this payment is recognised in full at the beginning of the year and is not accrued by quarter, the contributions impact reported administrative expenses in the first half.

### 5.6.3 DEPRECIATION, AMORTISATION AND IMPAIRMENT

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Depreciation and amortisation** | **-4,825** | **-5,221** |
| Intangible assets | -611 | -682 |
| Buildings used by Group companies | -1,819 | -1,878 |
| Equipment, fixtures and furnishings (incl. low value assets) | -2,395 | -2,661 |
| **Impairment** | **-8** | **–** |
| Intangible assets | -8 | – |
| **Total** | **-4,833** | **-5,221** |

## 5.7 Impairment losses/gains on financial assets – IFRS 9 ECL

### RISK PROVISIONS

**Risk provisions by rating classes**

| | Risk provisions | | | | Gross carrying amount | | | |
|---|---|---|---|---|---|---|---|---|
| EUR '000 | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Financial assets – AC** | **7,355** | **16,546** | **53,342** | **77,243** | **10,088,426** | **1,485,519** | **143,972** | **11,717,918** |
| Loans | 7,258 | 16,516 | 53,342 | 77,115 | 9,405,825 | 1,458,153 | 106,099 | 10,970,077 |
| Rating class 1 | 72 | 73 | – | 144 | 4,851,956 | 108,078 | – | 4,960,034 |
| Rating class 2 | 1,889 | 208 | – | 2,097 | 2,633,775 | 132,925 | – | 2,766,700 |
| Rating class 3 | 4,736 | 11,627 | – | 16,363 | 1,839,852 | 1,064,556 | – | 2,904,408 |
| Rating class 4 | 560 | 4,386 | – | 4,946 | 71,255 | 132,428 | – | 203,682 |
| Rating class 5 | – | – | 53,342 | 53,342 | 8,987 | – | 106,099 | 115,086 |
| Not rated | – | 222 | – | 222 | 1 | 20,166 | – | 20,167 |
| Bonds | 98 | 30 | – | 128 | 682,601 | 27,366 | 37,874 | 747,841 |
| Rating class 1 | 11 | – | – | 11 | 470,520 | – | – | 470,520 |
| Rating class 2 | 60 | 30 | – | 90 | 199,189 | 27,366 | – | 226,555 |
| Rating class 3 | 27 | – | – | 27 | 12,892 | – | – | 12,892 |
| Rating class 5 | – | – | – | – | – | – | 37,874 | 37,874 |
| **Financial assets – FVOCI** | **46** | **9** | **–** | **55** | **748,642** | **8,063** | **–** | **756,705** |
| Bonds | 46 | 9 | – | 55 | 748,642 | 8,063 | – | 756,705 |
| Rating class 1 | 14 | – | – | 14 | 526,325 | – | – | 526,325 |
| Rating class 2 | 32 | 9 | – | 42 | 222,318 | 8,063 | – | 230,381 |
| **Provisions for off-balance-sheet risks** | **879** | **203** | **750** | **1,832** | **981,294** | **55,533** | **901** | **1,037,729** |
| Rating class 1 | 3 | – | – | 3 | 485,722 | 616 | – | 486,338 |
| Rating class 2 | 106 | 11 | – | 117 | 258,443 | 19,454 | – | 277,897 |
| Rating class 3 | 667 | 78 | – | 745 | 227,911 | 28,737 | – | 256,648 |
| Rating class 4 | 104 | 112 | – | 216 | 7,225 | 6,692 | – | 13,917 |
| Rating class 5 | – | – | 750 | 750 | 1,994 | – | 901 | 2,895 |
| Not rated | – | 2 | – | 2 | – | 34 | – | 34 |
| **Total** | **8,281** | **16,758** | **54,092** | **79,130** | **11,818,362** | **1,549,116** | **144,873** | **13,512,352** |

During the reporting period the HYPO NOE Group held no purchased or originated credit-impaired (POCI) financial assets. The maximum default risk for financial assets mandatorily measured at FVTPL corresponds to the carrying amounts.

**Stage 1 impairment losses/gains**

The following table shows the changes in the loss allowances for expected losses on "Financial assets – AC" and "Financial assets – FVOCI (debt instruments)". These loss allowances are measured at an amount equal to the 12-month expected credit losses.

| EUR '000 | 1 Jan. 2018 | Origination and purchase | Derecognition/ utilisation/ substantial modification | Allocations/ reversals/ stage transfers | Foreign exchange and other changes | 31 Dec. 2018 |
|---|---|---|---|---|---|---|
| **Financial assets – AC** | **-8,575** | **-3,637** | **1,788** | **3,063** | **6** | **-7,355** |
| Loans | -8,359 | -3,637 | 1,788 | 2,944 | 6 | -7,258 |
| Banks | -28 | -25 | 4 | 33 | 8 | -8 |
| General governments | -303 | -36 | 39 | 86 | – | -214 |
| Other financial corporations | -157 | -202 | 261 | -159 | – | -257 |
| Non-financial corporations | -6,409 | -2,693 | 1,208 | 2,390 | – | -5,503 |
| Households | -1,461 | -681 | 276 | 594 | -3 | -1,275 |
| Bonds | -216 | – | – | 118 | – | -98 |
| Banks | -39 | – | – | -9 | – | -48 |
| General governments | -4 | – | – | – | – | -3 |
| Non-financial corporations | -174 | – | – | 127 | – | -47 |
| **Financial assets – FVOCI** | **-69** | **–** | **–** | **23** | **–** | **-46** |
| Bonds | -69 | – | – | 23 | – | -46 |
| Banks | -59 | – | – | 21 | – | -38 |
| General governments | -7 | – | – | 2 | – | -5 |
| Other financial corporations | -1 | – | – | – | – | -1 |
| Non-financial corporations | -1 | – | – | – | – | -1 |
| **Total** | **-8,644** | **-3,637** | **1,788** | **3,085** | **6** | **-7,402** |

**Stage 2 impairment losses/gains**

The following table shows the changes in the loss allowances for expected losses on "Financial assets – AC" and "Financial assets – FVOCI (debt instruments)" where the default risk has risen significantly since initial recognition but the credit quality of the assets concerned is not impaired. These loss allowances are measured at an amount equal to the lifetime expected credit losses.

| 31 Dec. 2018, EUR '000 | 1 Jan. 2018 | Origination and purchase | Derecognition/ utilisation/ substantial modification | Allocations/ reversals/ stage transfers | Foreign exchange and other changes | 31 Dec. 2018 |
|---|---|---|---|---|---|---|
| **Financial assets – AC** | **-19,073** | **-301** | **1,292** | **1,649** | **-112** | **-16,546** |
| Loans | -18,506 | -301 | 1,292 | 1,111 | -112 | -16,516 |
| Banks | -30 | -258 | – | 283 | 2 | -2 |
| General governments | -1,380 | – | 5 | 474 | – | -901 |
| Other financial corporations | -361 | – | 23 | 319 | – | -20 |
| Non-financial corporations | -6,699 | -11 | 833 | 397 | -5 | -5,485 |
| Households | -10,036 | -32 | 431 | -362 | -109 | -10,108 |
| Bonds | -567 | – | – | 537 | – | -30 |
| Banks | -14 | – | – | -14 | – | – |
| General governments | -554 | – | – | 524 | – | -30 |
| **Financial assets – FVOCI** | **-20** | **–** | **–** | **11** | **–** | **-9** |
| Bonds | -20 | – | – | 11 | – | -9 |
| Banks | -20 | – | – | 11 | – | -9 |
| **Total** | **-19,093** | **-301** | **1,292** | **1,659** | **-112** | **-16,555** |

**Stage 3 impairment losses/gains**

The following table shows the changes in the loss allowances for expected losses on "Financial assets – AC" and "Financial assets – FVOCI (debt instruments)" where credit quality is impaired at the reporting date but this was not the case at the time of purchase or origination. These loss allowances are measured at an amount equal to the lifetime expected credit losses.

| EUR '000 | 1 Jan. 2018 | Origination and purchase | Derecognition/ utilisation/ substantial modification | Allocations/ reversals/ stage transfers | Foreign exchange and other changes | 31 Dec. 2018 |
|---|---|---|---|---|---|---|
| **Financial assets – AC** | **-62,865** | **-335** | **7,643** | **2,293** | **-78** | **-53,342** |
| Loans | -62,865 | -335 | 7,643 | 2,293 | -78 | -53,342 |
| General governments | -5,071 | – | – | 376 | – | -4,695 |
| Non-financial corporations | -40,189 | -321 | 4,248 | 4,580 | – | -31,682 |
| Households | -17,605 | -14 | 3,396 | -2,664 | -78 | -16,965 |
| **Total** | **-62,865** | **-335** | **7,643** | **2,293** | **-78** | **-53,342** |

The tables below show the previous year's published figures as at 31 December 2017. Owing to the application of loss allowances in accordance with paragraph 5.5 IFRS 9 the figures for the current reporting period are not comparable with those for the previous year. A reconciliation of the IAS 39 risk provisions with IFRS 9, carried out in accordance with paragraph 7.42P IFRS 7, is shown in the transition notes in Note 2 Accounting standards.

| EUR '000 | 2018 | 2017 |
|---|---|---|
| **Allocations to:** | **N/A** | **-14,867** |
| Individual impairment allowances | N/A | -12,375 |
| Collective impairment allowances | N/A | -2,396 |
| Other credit provisions | N/A | -97 |
| **Reversals of:** | **N/A** | **25,003** |
| Individual impairment allowances | N/A | 22,760 |
| Collective impairment allowances | N/A | 2,024 |
| Other credit provisions | N/A | 219 |
| **Direct write-offs** | **N/A** | **-1,035** |
| **Total** | **N/A** | **9,100** |

**Geographical analysis of risk provisions**

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Domestic | -48,655 | -48,203 |
| Foreign | | |
| CEE | -8,633 | -7,733 |
| Rest of the world | -20,010 | -19,334 |
| **Total** | **-77,298** | **-75,270** |

### 5.7.2 DISCLOSURES OF MATURITIES AND COLLATERALS

The tables below show the value of the collateral as calculated for regulatory purposes.

| 31 Dec. 2018, EUR '000 | Not past due | Less than 90 days overdue | 90 or more days overdue | Total |
|---|---|---|---|---|
| **Financial assets (Stage 1)** | **10,787,636** | **45,202** | **4,230** | **10,837,068** |
| AC | 10,038,994 | 45,202 | 4,230 | 10,088,426 |
| FVOCI | 748,643 | – | – | 748,643 |
| **Financial assets (Stage 2)** | **1,468,206** | **25,377** | **–** | **1,493,583** |
| AC | 1,460,142 | 25,377 | – | 1,485,520 |
| FVOCI | 8,063 | – | – | 8,063 |
| **Financial assets (Stage 3)** | **112,038** | **1,849** | **30,085** | **143,972** |
| AC | 112,038 | 1,849 | 30,085 | 143,972 |
| **Financial assets – mandatorily FVTPL** | **258,367** | **1,762** | **2,346** | **262,475** |
| **Collateral for assets measured at AC** | **–** | **–** | **–** | **5,553,985** |
| Secured by mortgages | – | – | – | 2,104,925 |
| Loans secured in other ways | – | – | – | 48,665 |
| Financial guarantees received | – | – | – | 3,400,395 |
| **Collateral for assets mandatorily measured at FVTPL** | **–** | **–** | **–** | **127,590** |
| Secured by mortgages | – | – | – | 122,442 |
| Loans secured in other ways | – | – | – | 2,775 |
| Financial guarantees received | – | – | – | 2,374 |

| 31 Dec. 2017, EUR '000 | Not past due | Less than 90 days overdue | 90 or more days overdue | Total |
|---|---|---|---|---|
| **Gross carrying amount (not individually impaired)** | **12,822,695** | **37,550** | **1,413** | **12,861,658** |
| LAR | 11,326,540 | 37,550 | 1,413 | 11,365,503 |
| AFS | 1,496,155 | – | – | 1,496,155 |
| **Gross carrying amount (individually impaired)** | **154,817** | **8,486** | **44,656** | **207,959** |
| LAR | 115,670 | 8,486 | 44,656 | 168,812 |
| AFS | 39,147 | – | – | 39,147 |
| **Gross carrying amount** | **12,977,512** | **46,036** | **46,069** | **13,069,617** |
| LAR | 11,442,210 | 46,036 | 46,069 | 11,534,315 |
| AFS | 1,535,302 | – | – | 1,535,302 |
| **Collateral in the form of LAR** | | | | **4,774,560** |
| Secured by mortgages | | | | 1,846,681 |
| Loans secured in other ways | | | | 44,402 |
| Financial guarantees received | | | | 2,883,477 |
| **Collateral in the form of AFS assets** | | | | **465,591** |
| Collective impairment allowances (LAR) | -4,814 | -90 | -3 | -4,907 |
| Individual impairment allowances (LAR) | -39,490 | -2,454 | -28,419 | -70,363 |
| **Net carrying amount** | **12,933,208** | **43,492** | **17,647** | **12,994,347** |

**Forborne exposures**

The tables below show the changes in forborne exposures, as well as analyses by geographical area, rating class and maturity. The presentation includes both forborne instalments and arrears. In 2018 forbearance measures in respect of a total of EUR 8thsd in impairment allowances were recognised in profit or loss. There were no significant cases of derecognition as a result of forbearance measures in 2018. Most of the reduction was due to repayments. See Note 8.6 Risk management for an additional narrative discussion. Unlike the NPL portfolio, the tables below include all assets in respect of which forbearance was shown, even where these measures did not lead to Stage 3 classification at the level of individual exposures.

| Forborne exposures at 1 Jan. 2018, EUR '000 | Additions (+) | Exits (-) | Forborne exposures at 31 Dec. 2018 | Interest income from existing loans and advances recognised in profit or loss | Related individual risk provisions |
|---|---|---|---|---|---|
| 81,558 | 3,640 | -15,060 | 70,138 | 2,120 | -15,463 |

| Forborne exposures at 1 Jan. 2017, EUR '000 | Additions (+) | Exits (-) | Forborne exposures at 31 Dec. 2017 | Interest income from existing loans and advances recognised in profit or loss | Related individual impairments | Collective impairment allowances |
|---|---|---|---|---|---|---|
| 126,935 | 6,252 | -51,628 | 81,558 | 2,488 | -16,315 | -38 |

### Geographical analysis

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Domestic customers | 21,469 | 19,584 |
| Foreign customers | | |
| CEE | 41,834 | 48,503 |
| Rest of the world | 6,835 | 13,471 |
| **Total** | **70,138** | **81,558** |

### Breakdown by rating

| 31 Dec. 2018, EUR '000 | Not past due | Less than 90 days overdue | 90 or more days overdue | Total | Collateral received |
|---|---|---|---|---|---|
| Rating class 1 | – | – | – | – | – |
| Rating class 2 | 569 | – | – | 569 | 456 |
| Rating class 3 | 34,570 | – | – | 34,570 | 1,880 |
| Rating class 4 | 4,966 | – | – | 4,966 | 3,933 |
| Rating class 5 | 24,742 | 2,529 | 2,762 | 30,033 | 8,359 |
| **Total** | **64,847** | **2,529** | **2,762** | **70,138** | **14,628** |

| 31 Dec. 2017, EUR '000 | Not past due and not individually impaired | Not past due but individually impaired | Less than 90 days overdue | 90 or more days overdue | Total | Collateral received |
|---|---|---|---|---|---|---|
| Rating class 1 | – | – | – | – | – | – |
| Rating class 2 | – | – | – | – | – | – |
| Rating class 3 | 8,297 | – | – | – | 8,297 | 1,623 |
| Rating class 4 | 4,601 | – | – | – | 4,601 | 3,577 |
| Rating class 5 | 415 | 67,078 | 15 | 1,153 | 68,661 | 6,456 |
| **Total** | **13,312** | **67,078** | **15** | **1,153** | **81,558** | **11,656** |

### Breakdown by maturity

| 31 Dec. 2018, EUR '000 | Not past due | Less than 90 days overdue | 90 or more days overdue | Total | Collateral received |
|---|---|---|---|---|---|
| Financial assets – AC (Stage 1) | 534 | 2,293 | – | 2,827 | 1,676 |
| Financial assets – AC (Stage 2) | 39,359 | – | – | 39,359 | 5,837 |
| Financial assets – AC (Stage 3) | 23,911 | 235 | 2,762 | 26,907 | 6,465 |
| Financial assets – mandatorily FVTPL | 1,044 | 1 | – | 1,045 | 650 |
| **Total** | **64,847** | **2,529** | **2,762** | **70,138** | **14,628** |

| 31 Dec. 2017, EUR '000 | Not past due | Less than 90 days overdue | 90 or more days overdue | Total | Collateral received |
|---|---|---|---|---|---|
| Gross carrying amount (not individually impaired) | 13,312 | – | – | 13,312 | 5,600 |
| Gross carrying amount (individually impaired) | 67,078 | 15 | 1,153 | 68,245 | 6,056 |
| Collective impairment allowances | -38 | – | – | -38 | – |
| Individual impairment allowances | -15,652 | -13 | -650 | -16,315 | – |
| **Net carrying amount** | **64,700** | **2** | **503** | **65,205** | **11,656** |

## 5.8 Net gains or losses on investments accounted for using the equity method

This item includes net gains or losses relating to associates and joint ventures accounted for using the equity method. A detailed listing of these companies can be found in Note 3.2.3 Associates and joint ventures.

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Net gains or losses on investments accounted for using the equity method | -534 | -3,311 |
| NOE Immobilien Development GmbH (consolidated financial statements) | -565 | -736 |
| NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG | -34 | -367 |
| Niederösterreichische Vorsorgekasse AG | 524 | 521 |
| EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements) | -959 | -4,491 |
| Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H. | 696 | 1,107 |
| NÖ. Landeshauptstadt – Planungsgesellschaft m.b.H. | -58 | 449 |
| **Total** | **-534** | **-3,311** |

## 5.9 Income tax expense

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

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Current income tax | -8,385 | -8,083 |
| Deferred income tax | -3,163 | -1,575 |
| **Total** | **-11,548** | **-9,658** |

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

| EUR '000 | 2018 | 2017 |
|---|---|---|
| Profit before tax | 47,992 | 38,764 |
| x income tax rate | 25% | 25% |
| **= anticipated income tax expense** | **-11,998** | **-9,691** |
| **Reductions in tax liability** | **442** | **478** |
| Tax-free income from investments | 342 | 215 |
| Other tax-free income | 100 | 263 |
| **Increases in tax liability** | **58** | **-1,665** |
| Non-deductible expenses | -637 | -668 |
| Investments accounted for using the equity method | 694 | -996 |
| **Tax effects of other differences** | **-50** | **1,220** |
| Adjustments to and non-recognition of deferred tax | – | -316 |
| Previous years | -115 | 2,096 |
| Prepayments | 46 | -21 |
| Other adjustments | 20 | -539 |
| **Total** | **-11,548** | **-9,658** |

Net deferred tax credits of EUR 2,141thsd (2017: deferred tax liabilities of EUR 1,704thsd) were recognised directly in equity. The basis for non-recognition of deferred tax in profit or loss for associates and joint ventures is negative by EUR 2,778thsd (2017: positive by EUR 1,972thsd).

| EUR '000 | Net deferred taxes 1 Jan. 2017 | Changes in scope of consolidation | Change in 2018 | | Net deferred taxes 31 Dec. 2018 | Assets | Liabilities |
|---|---|---|---|---|---|---|---|
| | | | Recognised in profit or loss | Not recognised in profit or loss | | | |
| Financial assets – HFT | -106,829 | – | 8,472 | – | -98,356 | – | -98,356 |
| Financial assets – mandatorily FVTPL | 1,654 | – | -4,730 | – | -3,076 | – | -3,076 |
| Financial assets – FVO | – | – | – | – | – | – | – |
| Financial assets – FVOCI | -25,732 | – | 5,014 | – | -20,718 | 977 | -21,695 |
| Financial assets – AC | -163,390 | – | 4,914 | – | -158,475 | 1,519 | -159,995 |
| Positive fair value of hedges (hedge accounting) | -86,049 | – | 5,974 | – | -80,076 | – | -80,076 |
| Other assets | 1,610 | – | 1,306 | – | 2,916 | 4,820 | -1,903 |
| Financial liabilities – HFT | 104,457 | – | -9,362 | – | 95,095 | 95,095 | – |
| Financial liabilities – AC | 73,275 | – | -2,721 | – | 70,554 | 70,554 | – |
| Negative fair value of hedges (hedge accounting) | 167,745 | – | -9,386 | – | 158,359 | 158,359 | – |
| Other liabilities | -2,235 | – | 1 | – | -2,235 | 4,204 | -6,439 |
| Reserve made up of actuarial gains and losses | – | – | 592 | -592 | – | – | – |
| Reserve made up of financial assets measured at FVOCI | – | – | -2,725 | 2,725 | – | – | – |
| Reserve made up of sundry items | – | – | -26 | 26 | – | – | – |
| Currency translation reserve | – | – | 18 | -18 | – | – | – |
| Tax loss carryforwards available for use without time limit | 8,816 | – | -500 | – | 8,315 | 8,315 | – |
| **Total** | **-26,678** | **–** | **-3,159** | **2,141** | **-27,696** | **343,844** | **-371,540** |

The taxable temporary differences related to interests in affiliated companies, joint ventures and associates for which no deferred tax liabilities were recognised under paragraph 39 IAS 12 totalled EUR 2,865thsd.

Note 6.12 Tax assets and Note 6.20 Tax liabilities provide a detailed analysis of the deferred tax assets and liabilities.

| EUR '000 | Net deferred taxes 1 Jan. 2017 | Changes in scope of consolidation | Change in 2017 Recognised in profit or loss | Change in 2017 Not recognised in profit or loss | Net deferred taxes 31 Dec. 2017 | Assets | Liabilities |
|---|---|---|---|---|---|---|---|
| Loans and advances incl. risk provision | -184,331 | – | 20,919 | – | -163,412 | 448 | -163,859 |
| Positive fair value of hedges (hedge accounting) | -120,804 | – | 34,559 | – | -86,244 | – | -86,244 |
| Assets – HFT | -129,795 | – | 22,966 | – | -106,829 | – | -106,829 |
| Financial instruments (FVO, AFS, HTM) | -47,418 | – | 10,205 | – | -39,116 | 1,661 | -40,777 |
| Other assets | -768 | – | 2,356 | – | 1,588 | 3,247 | -1,658 |
| Liabilities (debts evidenced by certificates and deposits from banks and customers) | 112,536 | – | -37,904 | – | 74,632 | 74,632 | – |
| Liabilities – HFT | 125,739 | – | -21,425 | – | 104,313 | 104,313 | – |
| Negative fair value of hedges (hedge accounting) | 198,424 | – | -30,340 | – | 168,084 | 168,084 | – |
| Other liabilities | 1,725 | – | -2,748 | – | -1,120 | 5,961 | -7,081 |
| Actuarial gains and losses in accordance with IAS 19 | – | – | – | -98 | – | – | – |
| Available-for-sale (AFS) financial instruments | – | – | – | -1,903 | – | – | – |
| Currency translation reserve | – | – | – | – | – | – | – |
| Tax loss carryforwards available for use without time limit | 9,180 | 207 | -364 | – | 8,816 | 8,816 | – |
| **Total** | **-35,512** | **207** | **-1,776** | **-2,001** | **-39,288** | **367,162** | **-406,448** |

## 5.10 Non-controlling interests

| EUR '000 | 2018 | 2017 |
|---|---|---|
| FORIS Grundstückvermietungs Gesellschaft m.b.H. | 17 | -5 |
| VALET-Grundstückverwaltungs Gesellschaft m.b.H. | 15 | 99 |
| LITUS Grundstückvermietungs Gesellschaft m.b.H. | 81 | -7 |
| VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H. | -24 | -25 |
| Adoria Grundstückvermietungs Gesellschaft m.b.H. | -16 | -13 |
| CONATUS Grundstückvermietungs Gesellschaft m.b.H. | 26 | -44 |
| Aventin Grundstückverwaltungs Gesellschaft m.b.H. | -136 | 1 |
| Esquilin Grundstücksverwaltungs Gesellschaft m.b.H. | -5 | 32 |
| HOSPES-Grundstückverwaltungs Gesellschaft m.b.H. | -30 | -204 |
| **Total** | **-72** | **-166** |

# 6. NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 6.1 Cash and balances at central banks

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Cash on hand | 12,323 | 12,935 |
| Balances at central banks | 404,808 | 443,262 |
| **Total** | **417,130** | **456,197** |

The marked decline in balances at central banks reflects action to shrink short-term excess liquidity.

## 6.2 Financial assets – HFT

The positive fair value of derivatives held by the Group as economic hedges as at 31 December 2018, and not included in hedge accounting, is reported under this item.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Positive fair value of interest rate derivatives | 413,671 | N/A |
| Positive fair value of foreign exchange derivatives | 15,312 | N/A |
| **Total** | **428,983** | **N/A** |

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Interest rate derivatives | N/A | 462,150 |
| Foreign exchange derivatives | N/A | 14,102 |
| **Total** | **N/A** | **476,252** |

## 6.3 Financial assets – mandatorily FVTPL

This item is used to report transactions that are attributed to the "hold" or "hold to collect and sell" business models, and are not SPPI-compliant. These are predominantly loans and bonds that fail the SPPI test because of an interest escalation clause; these assets are hence mandatorily measured at fair value through profit or loss.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Loans** | **162,414** | **N/A** |
| General governments | 4,240 | N/A |
| Other financial corporations | 2,260 | N/A |
| Non-financial corporations | 111,268 | N/A |
| Households | 44,646 | N/A |
| **Bonds** | **100,062** | **N/A** |
| General governments | 42,694 | N/A |
| Banks | 47,184 | N/A |
| Other financial corporations | 10,184 | N/A |
| **Total** | **262,475** | **N/A** |

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

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Loans | N/A | 19,474 |
| **Total** | **N/A** | **19,474** |

## 6.4 Financial assets – FVOCI

Debt instruments that are attributed to the "hold to collect and sell" business model are shown under "Financial assets – FVOCI". This item also includes equity instruments that are financial instruments as defined by IFRS 9. Measurement is at fair value and is not recognised in profit or loss.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Bonds** | **756,705** | **N/A** |
| General governments | 522,394 | N/A |
| Banks | 222,115 | N/A |
| Other financial corporations | 10,137 | N/A |
| Non-financial corporations | 2,059 | N/A |
| **Equity instruments** | **3,511** | **N/A** |
| Banks | 792 | N/A |
| Other financial corporations | 1 | N/A |
| Non-financial corporations | 2,718 | N/A |
| **Total** | **760,216** | **N/A** |

The following companies were recognised as "Financial assets – FVOCI (equity instruments)". Internal assessments of these entities found that the Group exercised neither "control" as defined by IFRS 10 nor "significant influence" as defined by IAS 28, and they were hence not measured at fair value as prescribed by IFRS 13.

| Company name | Interest | Fair value 31 Dec. 2018 |
|---|---|---|
| NÖ Bürgschaften und Beteiligungen GmbH | 5.82% | 982 |
| PVP I Beteiligungs-Invest AG (under resolution) | 16.45% | 667 |
| Hypo-Wohnbaubank Aktiengesellschaft | 12.50% | 792 |
| Garantiqa Hitelgarancia Zártkörüen Müködö Részvénytársaság | 0.13% | 130 |
| HP IT-Solutions GmbH | 8.33% | 12 |
| Wirtschaftspark Kematen Gesellschaft m.b.H. | 10.00% | – |
| Hypo-Haftungs-Gesellschaft m.b.H. | 12.50% | 5 |
| Hypo-Banken-Holding Gesellschaft m.b.H. | 12.50% | 788 |
| VB Services für Banken Ges.m.b.H. | 1.11% | 92 |
| NÖ Landesimmobiliengesellschaft m.b.H. | 8.75% | 4 |
| Land Niederösterreich Immobilienverwaltungsgesellschaft m.b.H. | 8.75% | 4 |
| Gemeinnützige Wohn- und Siedlungsgesellschaft Schönere Zukunft, Gesellschaft m.b.H. | 15.00% | 1 |
| Volksbanken-Versicherungsdienst-Gesellschaft m.b.H. | 0.56% | 23 |
| ARZ Hypo-Holding GmbH | 0.30% | 9 |
| Einlagensicherung AUSTRIA Ges.m.b.H. | 0.19% | 1 |
| VB Verbund-Beteiligung eG | 0.00% | 1 |
| Land Niederösterreich Vermögensverwaltung GmbH & CO OG | 1.00% | – |
| GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. | 0.00% | 1 |

The dividend income included in "Financial assets – FVOCI" is reported as a separate item, "Dividend income", in the statement of comprehensive income. The HYPO NOE Group received no dividend income from financial investments that were derecognised during the reporting period.

**AVAILABLE-FOR-SALE FINANCIAL ASSETS**

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Other equity instruments | N/A | 54,875 |
| Bonds | N/A | 1,535,302 |
| Interests in non-consolidated subsidiaries | N/A | 106 |
| Interests in associates | N/A | 485 |
| Other investments | N/A | 3,421 |
| **Total** | **N/A** | **1,594,189** |

## 6.5 Financial assets – AC

Transactions that are attributed to the "hold to collect" business model and pass the SPPI test are reported as "Financial assets – AC". These relate in the main to loans originated by the Bank, lease receivables (see also Note 8.3 Leasing disclosures), overnight money and time deposits, and securities corresponding to the "hold to collect" business model. Measurement is at amortised cost less risk provisions.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Loans** | **10,892,962** | **N/A** |
| Banks | 644,825 | N/A |
| General governments | 4,371,429 | N/A |
| Other financial corporations | 209,427 | N/A |
| Non-financial corporations | 3,690,180 | N/A |
| Households | 1,977,101 | N/A |
| **Bonds** | **747,713** | **N/A** |
| Banks | 211,346 | N/A |
| General governments | 474,842 | N/A |
| Other financial corporations | 37,874 | N/A |
| Non-financial corporations | 23,651 | N/A |
| **Total** | **11,640,675** | **N/A** |

### LOANS AND ADVANCES TO BANKS

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Domestic banks | N/A | 66,211 |
| Foreign banks | | |
| CEE | N/A | 519 |
| Rest of the world | N/A | 794,091 |
| **Total** | **N/A** | **860,821** |

### LOANS AND ADVANCES TO CUSTOMERS

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Domestic customers | N/A | 9,256,681 |
| Foreign customers | | |
| CEE | N/A | 386,361 |
| Rest of the world | N/A | 587,190 |
| **Total** | **N/A** | **10,230,232** |

## 6.6 Positive fair value of hedges (hedge accounting)

The Group reports the positive fair value of derivatives as at 31 December 2018 under the fair value hedge accounting. The table below shows an analysis of the positive fair value of these instruments according to the statement of financial position items of the hedged underlyings.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Assets** | **1,440** | **2,293** |
| Financial assets – FVOCI | 1 | N/A |
| Available-for-sale financial assets | N/A | 532 |
| Financial assets – AC | 1,439 | N/A |
| Loans and advances to customers | N/A | 1,761 |
| **Equity and liabilities** | **375,694** | **402,936** |
| Financial liabilities – AC | 375,694 | N/A |
| Deposits from banks | N/A | 591 |
| Deposits from customers | N/A | 4,533 |
| Debts evidenced by certificates | N/A | 397,812 |
| **Total** | **377,134** | **405,229** |

## 6.7 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. 2018 | 31 Dec. 2017 |
|---|---|---|
| Banks | 3,366 | 3,009 |
| Non-banks | 19,782 | 21,216 |
| **Total** | **23,148** | **24,225** |

Losses totalling EUR 234thsd (31 Dec. 2017: EUR 61thsd) were not recognised through profit or loss. These accumulated losses grew by EUR 173thsd in 2018, whereas they had decreased by EUR 252thsd in 2017.

## 6.8 Investment property

Land and buildings held to earn rental income or for anticipated capital appreciation are shown under this item (see Note 3.8 Investment property).

Rental income in the reporting period was EUR 2,417thsd (2017: EUR 2,495thsd).

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Investment property | 39,608 | 41,382 |

The fair value of investment properties as at 31 December 2018 was EUR 47,805thsd (31 Dec. 2017: EUR 47,805thsd).

**Reconciliation of carrying amounts**

The table below presents movements in the carrying amounts for the "Investment property" item.

| | Cost | | | | | | | Accumulated depreciation and amortisation | | | | Carrying amount | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EUR '000 | 1 Jan. 2018 | Changes in scope of consolidation | Additions | Disposals | Transfers | Changes due to IFRS 5 | 31 Dec. 2018 | 1 Jan. 2018 | Depreciation | Changes due to IFRS 5 | 31 Dec. 2018 | 1 Jan. 2018 | 31 Dec. 2018 |
| Investment property | 48,501 | – | 81 | -170 | – | – | 48,412 | -7,118 | -1,684 | – | -8,804 | 41,383 | 39,608 |

| | Cost | | | | | | | Accumulated depreciation and amortisation | | | | Carrying amount | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EUR '000 | 1 Jan. 2017 | Changes in scope of consolidation | Additions | Disposals | Transfers | Changes due to IFRS 5 | 31 Dec. 2017 | 1 Jan. 2017 | Depreciation | Changes due to IFRS 5 | 31 Dec. 2017 | 1 Jan. 2017 | 31 Dec. 2017 |
| Investment property | 60,915 | – | 163 | – | – | -12,484 | 48,501 | -6,704 | -1,701 | 1,287 | -7,118 | 54,211 | 41,383 |

## 6.9 Intangible assets

Intangible assets acquired for consideration, such as software, are reported here. This item is also discussed in Note 3.9 Intangible assets, and property, plant and equipment. The HYPO NOE Group held no self-constructed intangible assets qualifying for capitalisation in 2018.

Depreciation and amortisation, and impairments are reported in the statement of comprehensive income (see the summary table 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 as "Net other operating income" (Note 5.5). 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. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Intangible assets** | | |
| Software | 755 | 932 |
| **Total intangible assets** | **755** | **932** |

## 6.10 Property, plant and equipment

Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its business activities are reported as property, plant and equipment, For details see Note 3.9 Intangible assets, and property, plant and equipment. The additions and disposals reflect the various carrying amounts, and the related cash flows are shown in the consolidated statement of cash flows, under cash flows from investing activities.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Property, plant and equipment** | | |
| Land and buildings | 59,978 | 61,581 |
| IT equipment | 357 | 476 |
| Equipment, fixtures and furnishings | 6,443 | 7,577 |
| Other property, plant and equipment | – | 38 |
| **Total property, plant and equipment** | **66,778** | **69,672** |

The carrying amount of land as at 31 December 2018 was EUR 12,983thsd (2017: EUR 12,983thsd).

The fair value of land and buildings as at 31 December 2018 was EUR 70,775thsd (2017: EUR 71,242thsd);

## 6.11 Movements in intangible assets and property, plant and equipment

| | Cost | | | | | | Accumulated depreciation and amortisation | | | | | | Carrying amount | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EUR '000 | 1 Jan. 2018 | Additions | Disposals | Transfers | Other changes | 31 Dec. 2018 | 1 Jan. 2018 | Depreciation and amortisation | Impairments | Transfers | Disposals | 31 Dec. 2018 | 1 Jan. 2018 | 31 Dec. 2018 |
| **Intangible assets** | | | | | | | | | | | | | | |
| Software | 8,610 | 457 | -178 | – | – | 8,889 | -7,678 | -611 | -8 | – | 164 | -8,134 | 932 | 755 |
| Goodwill | 877 | – | – | – | – | 877 | -877 | – | – | – | – | -877 | – | – |
| **Total intangible assets** | **9,487** | **457** | **-178** | **–** | **–** | **9,766** | **-8,555** | **-611** | **-8** | **–** | **164** | **-9,011** | **932** | **755** |
| **Property, plant and equipment** | | | | | | | | | | | | | | |
| Land and buildings | 75,446 | 216 | -595 | – | – | 75,067 | -13,865 | -1,819 | – | – | 595 | -15,089 | 61,581 | 59,978 |
| IT equipment | 4,444 | 225 | -186 | – | – | 4,483 | -3,968 | -342 | – | – | 184 | -4,126 | 476 | 357 |
| Equipment, fixtures and furnishings | 33,741 | 1,390 | -2,389 | – | – | 32,742 | -26,164 | -2,011 | – | – | 1,877 | -26,298 | 7,577 | 6,444 |
| Other property, plant and equipment | 125 | – | -92 | – | – | 33 | -87 | -16 | – | – | 71 | -32 | 38 | 1 |
| **Total property, plant and equipment** | **113,756** | **1,831** | **-3,262** | **–** | **–** | **112,325** | **-44,084** | **-4,188** | **–** | **–** | **2,727** | **-45,545** | **69,672** | **66,780** |

| | Cost | | | | | | Accumulated depreciation and amortisation | | | | | | Carrying amount | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EUR '000 | 1 Jan. 2017 | Additions | Disposals | Transfers | Other changes | 31 Dec. 2017 | 1 Jan. 2017 | Depreciation and amortisation | Impairments | Transfers | Disposals | 31 Dec. 2017 | 1 Jan. 2017 | 31 Dec. 2017 |
| **Intangible assets** | | | | | | | | | | | | | | |
| Software | 7,918 | 638 | -6 | 96 | -36 | 8,610 | -7,000 | -682 | – | -39 | 43 | -7,678 | 918 | 932 |
| Goodwill | 877 | – | – | – | – | 877 | -877 | – | – | – | – | -877 | – | – |
| **Total intangible assets** | **8,795** | **638** | **-6** | **96** | **-36** | **9,487** | **-7,877** | **-682** | **–** | **-39** | **43** | **-8,555** | **918** | **932** |
| **Property, plant and equipment** | | | | | | | | | | | | | | |
| Land and buildings | 83,476 | 20 | -8,051 | – | – | 75,446 | -15,339 | -1,878 | – | – | 3,352 | -13,865 | 68,137 | 61,581 |
| IT equipment | 4,468 | 181 | -80 | -125 | – | 4,444 | -3,728 | -319 | – | – | 79 | -3,968 | 740 | 476 |
| Equipment, fixtures and furnishings | 36,250 | 1,447 | -3,833 | 29 | -172 | 33,741 | -27,662 | -2,297 | – | 39 | 3,756 | -26,164 | 8,588 | 7,577 |
| Other proper-ty, plant and quipment | 125 | – | – | – | – | 125 | -65 | -22 | – | – | – | -87 | 60 | 38 |
| **Total property, plant and equipment** | **124,319** | **1,648** | **-11,964** | **-96** | **-172** | **113,756** | **-46,794** | **-4,516** | **–** | **39** | **7,187** | **-44,084** | **77,525** | **69,672** |

## 6.12 Tax assets

See Note 3.14 Tax assets and liabilities for a narrative discussion of income tax.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Current tax assets | 12,147 | 20,659 |
| Deferred tax assets | – | 4,076 |
| **Total** | **12,147** | **24,735** |

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

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Loans and advances to customers | N/A | 443 |
| Risk provisions | N/A | 5 |
| Financial assets – AC | 1,519 | N/A |
| Financial investments IAS 39 | N/A | 1,826 |
| Financial investments IFRS 9 | 1,910 | N/A |
| Property, plant and equipment | 65 | 70 |
| Other assets | 3,821 | 3,012 |
| Financial liabilities – AC | 70,554 | N/A |
| Deposits from banks | N/A | 67 |
| Deposits from customers | N/A | 889 |
| Debts evidenced by certificates | N/A | 73,677 |
| Financial liabilities – HFT | 95,095 | N/A |
| Liabilities – HFT | N/A | 104,313 |
| Negative fair value of hedges (hedge accounting) | 158,359 | 168,084 |
| Provisions | 2,886 | 3,331 |
| Other liabilities | 1,318 | 2,629 |
| Tax loss carryforwards | 8,315 | 8,814 |
| **Deferred tax assets before offsetting** | **343,844** | **367,160** |
| less deferred tax liabilities | -343,844 | -363,083 |
| **Reported net deferred tax assets** | **–** | **4,076** |

No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 18,388thsd (2017: EUR 18,255thsd).

## 6.13 Other assets

For a narrative discussion of this item see Note 3.10 Other assets.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Accruals and deferrals | 8,426 | 9,018 |
| Other receivables and assets | 22,587 | 217,809 |
| Future finance lease assets | N/A | 196,092 |
| Value added tax and other tax credits (other than income tax) | 3,671 | 8,501 |
| Trade receivables | 2,380 | 9,533 |
| Other receivables | 11,186 | – |
| **Total** | **31,013** | **226,827** |

Since 1 January 2018 the future finance lease assets have been part of the "Financial assets – AC" item (Note 6.5).

## 6.14 Non-current assets held for sale (IFRS 5)

This item shows assets that are classed as held for sale. 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.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Non-current assets held for sale (IFRS 5) | – | 12,287 |
| Investment property | – | 11,300 |
| **Total** | **–** | **12,287** |

The disposal of Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH was completed during the first half of 2018.

## 6.15 Financial liabilities – HFT

The negative fair value of derivatives earmarked for disposal in the near term with the objective of generating a profit, and those held as economic hedges and not included in the hedge accounting, as at 31 December 2018, is reported under this item.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Negative fair value of derivatives held for trading** | | |
| Negative fair value of interest rate derivatives | 376,239 | N/A |
| Negative fair value of foreign exchange derivatives | 15,189 | N/A |
| **Total** | **391,428** | **N/A** |

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Negative fair value of financial instruments (banking book)** | | |
| Interest rate derivatives | N/A | 417,327 |
| Foreign exchange derivatives | N/A | 15,389 |
| **Total** | **N/A** | **432,716** |

## 6.16 Financial liabilities – FVO

The Group designated liabilities totalling EUR 3,500thsd as measured at fair value through profit or loss in accordance with paragraph 4.2.2 IFRS 9, so as to avoid measurement or recognition inconsistencies with regard to the related assets. Further details are given in Note 8.1.1 Financial instruments measured at fair value.

## 6.17 Financial liabilities – AC

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Savings deposits** | **872,853** | **N/A** |
| **Demand and time deposits** | **3,610,437** | **N/A** |
| Banks | 1,054,574 | N/A |
| General governments | 728,224 | N/A |
| Other financial corporations | 585,032 | N/A |
| Non-financial corporations | 535,214 | N/A |
| Households | 707,393 | N/A |
| **Debts evidenced by certificates** | **7,623,334** | **N/A** |
| Covered bonds | 1,130,105 | N/A |
| Municipal bonds | 4,103,536 | N/A |
| Other bonds | 2,389,693 | N/A |
| **Total** | **12,106,624** | **N/A** |

Application of IFRS 9 means that the previous items "Deposits from banks", "Deposits from customers" and "Debts evidenced by certificates" are replaced by the IFRS 9 categories "Financial liabilities – HFT", "Financial liabilities – FVO" and "Financial liabilities – AC". The figures are not comparable to those of previous period.

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

| EUR '000 | Trustee savings accounts | Guaranteed by the state government | Requiring coverage | Cover assets | Surplus coverage |
|---|---|---|---|---|---|
| **31 Dec. 2018** | 6,321 | 424 | 5,898 | 8,000 | 2,102 |
| **31 Dec. 2017** | 6,133 | 76 | 6,057 | 8,000 | 1,943 |

## DEPOSITS FROM BANKS

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Domestic banks | N/A | 322,863 |
| Foreign banks | | |
| CEE | N/A | 68,271 |
| Rest of the world | N/A | 583,784 |
| **Total** | **N/A** | **974,918** |

## DEPOSITS FROM CUSTOMERS

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Domestic customers | N/A | 3,749,081 |
| Foreign customers | | |
| CEE | N/A | 60,304 |
| Rest of the world | N/A | 240,461 |
| **Total** | **N/A** | **4,049,846** |

## DEBTS EVIDENCED BY CERTIFICATES

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Covered and municipal bonds | N/A | 4,868,342 |
| Other bonds | N/A | 2,415,544 |
| **Total** | **N/A** | **7,283,886** |

Debts evidenced by certificates included EUR 1,022,186thsd (2017: EUR 1,016,391thsd) in new issues floated during the reporting period. The Group repurchased issued debt amounting to EUR 5,859thsd (2017: EUR 27,008thsd).

## 6.18 Negative fair value of hedges (hedge accounting)

The Group reports the negative fair value of derivatives as at 31 December 2018 under the fair value hedge accounting. The table below shows an analysis of the negative fair value of these instruments according to the statement of financial position items of the hedged underlyings.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Assets** | **637,741** | **674,784** |
| Financial assets – FVOCI | 82,379 | N/A |
| Available-for-sale financial assets | N/A | 124,273 |
| Financial assets – AC | 555,362 | N/A |
| Loans and advances to customers | N/A | 550,511 |
| **Equity and liabilities** | **27,432** | **30,832** |
| Financial liabilities – AC | 27,432 | N/A |
| Deposits from banks | N/A | 109 |
| Debts evidenced by certificates | N/A | 30,723 |
| **Total** | **665,173** | **705,616** |

## 6.19 Provisions

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Employee benefit provisions** | **33,019** | **36,207** |
| Provisions for pensions | 20,685 | 23,092 |
| Provisions for termination benefits | 10,160 | 11,124 |
| Provisions for jubilee benefits | 2,174 | 1,991 |
| **Credit provisions** | **1,832** | **579** |
| **Other provisions** | **23,860** | **4,122** |
| **Total** | **58,711** | **40,908** |

#### 6.19.1 MOVEMENTS IN PROVISIONS

Liabilities may be uncertain in their timing or amount. Provisions are recognised when there is a present legal or constructive 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 by independent experts on the basis of cost estimates, of the Bank's own experience, and of discounted cash flow methods. The carrying amounts reflect best estimates of the expenditure required to settle the obligations.

| EUR '000 | 1 Jan. 2018 | Allocations | Utilisation | Reversals | Discount unwinding effect | Transfers | 31 Dec. 2018 |
|---|---|---|---|---|---|---|---|
| **Employee benefit provisions** | **36,207** | **771** | **-2,209** | **–** | **-1,750** | **–** | **33,019** |
| Provisions for pensions | 23,092 | 69 | -1,413 | – | -1,064 | – | 20,685 |
| Provisions for termination benefits | 11,124 | 535 | -693 | – | -807 | – | 10,160 |
| Provisions for jubilee benefits | 1,991 | 166 | -103 | – | 120 | – | 2,174 |
| **Credit provisions** | **1,600** | **1,338** | **–** | **-1,106** | **–** | **–** | **1,832** |
| **Other provisions** | **4,122** | **20,834** | **-747** | **-346** | **-3** | **–** | **23,860** |
| **Total** | **41,929** | **22,943** | **-2,955** | **-1,452** | **-1,753** | **–** | **58,711** |

During the second half of 2018 it became known that a number of separate legal actions had been brought with a view to obtaining the repayment of negative interest on corporate loans. Two first-instance verdicts entitling the companies concerned to the repayment of negative interest are appealable. As it is likely that the pending proceedings will also lead to a supreme court verdict on corporate loans for which no interest rate floor has been explicitly agreed, the HYPO NOE Group faces a legal risk for which an appropriate provision was recognised as at 31 December 2018.

| EUR '000 | 1 Jan. 2017 | Allocations | Utilisation | Reversals | Discount unwinding effect | Transfers | 31 Dec. 2017 |
|---|---|---|---|---|---|---|---|
| **Employee benefit provisions** | **37,722** | **762** | **-2,368** | **–** | **91** | **–** | **36,207** |
| Provisions for pensions | 24,644 | 65 | -1,480 | – | -137 | – | 23,092 |
| Provisions for termination benefits | 11,220 | 539 | -751 | – | 116 | – | 11,124 |
| Provisions for jubilee benefits | 1,858 | 158 | -137 | – | 112 | – | 1,991 |
| **Credit provisions** | **3,377** | **97** | **–** | **-219** | **–** | **-2,676** | **579** |
| **Other provisions** | **9,056** | **2,104** | **-8,175** | **-257** | **383** | **1,011** | **4,122** |
| **Total** | **50,155** | **2,963** | **-10,543** | **-476** | **474** | **-1,665** | **40,908** |

### 6.19.2 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. Current service cost and interest cost are recognised in profit or loss, under "Staff costs" (Note 5.6.1 Staff costs). The actuarial gains and losses are entirely attributable to changes in the financial assumptions applied.

The HYPO NOE Group's defined benefit plans give rise to pension, termination benefit and jubilee benefit obligations. IAS 19 defines pension and termination benefit obligations as those arising from benefits payable after the completion of employment. Jubilee benefits are classified as other long-term employee benefits. At present the HYPO NOE Group has three defined benefit pension plans, and the remaining obligations have been transferred to an outside pension fund. The only other defined benefit obligations are to retired employees and their eligible survivors.

There are termination benefit obligations under the old legislation. These are to employees who entered the service of the Group before 1 January 2003 and have not already received termination benefits as a result of a group transfer. Under the new termination benefit legislation the benefits are contracted out to a termination benefit fund (see the "Expenses for provident fund" item in Note 5.6.1 Staff costs). The jubilee benefits depend on employees' length of service, and are governed by the collective agreement applicable to the employment contract concerned.

| EUR '000 | Provisions for pensions | Provisions for termination benefits | Provisions for jubilee benefits | Total |
|---|---|---|---|---|
| **Present value of DBO at 31 Dec. 2016** | **24,644** | **11,220** | **1,858** | **37,722** |
| Service cost | 65 | 539 | 157 | 761 |
| Interest cost | 272 | 129 | 22 | 423 |
| Payments | -1,480 | -750 | -137 | -2,367 |
| Actuarial gains and losses recognised in profit or loss | – | – | 91 | 91 |
| Actuarial gains and losses not recognised in profit or loss | -409 | -13 | – | -422 |
| **Present value of DBO at 31 Dec. 2017** | **23,092** | **11,124** | **1,991** | **36,207** |
| Service cost | 69 | 535 | 166 | 770 |
| Interest cost | 302 | 152 | 28 | 482 |
| Payments | -1,413 | -693 | -103 | -2,209 |
| Actuarial gains and losses recognised in profit or loss | – | – | 92 | 92 |
| Actuarial gains and losses not recognised in profit or loss | -1,365 | -958 | – | -2,323 |
| **Present value of DBO at 31 Dec. 2018** | **20,685** | **10,160** | **2,174** | **33,019** |

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

**Assumptions underlying employee benefit calculations**
The first table shows the present values of the defined benefit obligations (DBOs) in respect of the employee benefit provisions (pensions, termination benefits and jubilee benefits) as at 31 December 2018, and the service and interest cost, as well as the underlying assumptions (discount rate, and salary and pension increases) for 2018 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 and pension increases, and life expectancy) would affect the DBO recognised.

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

The last line of the table models DBO given that the parameters remain unchanged from the previous year.

**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. 2018** | | | | |
| **Discount rate 1.8%; salary increase 2.3%; pension increase 2.0%** | | | | |
| DBO | 20,685 | 10,160 | 2,174 | 33,019 |
| Current service cost (CSC) (2018 forecast) | – | 471 | 177 | 648 |
| Interest cost (INT) (2018 forecast) | 372 | 193 | 42 | 607 |
| | | | | |
| Supervisory and Management boards: | | | | |
| DBO | 1,002 | 268 | 39 | 1,310 |
| CSC (2018 forecast) | – | 13 | 2 | 15 |
| INT (2018 forecast) | 18 | 5 | 1 | 24 |
| | | | | |
| Key management staff (identified staff) | | | | |
| DBO | – | 185 | 68 | 253 |
| CSC (2018 forecast) | – | 11 | 5 | 16 |
| INT (2018 forecast) | – | 5 | 1 | 6 |

**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. 2018: 0.25% discount rate increase** | |
| Discount rate 2.05%; salary increase 2.3%; pension increase 2.0% | 20,151 |
| **Carrying amounts as at 31 Dec. 2018: 0.25% discount rate decrease** | |
| Discount rate 1.55%; salary increase 2.3%; pension increase 2.0% | 21,244 |
| **Carrying amounts as at 31 Dec. 2018: 0.25% salary increase** | |
| Discount rate 1.8%; salary increase 2.55%; pension increase 2.0% | 20,685 |
| **Carrying amounts as at 31 Dec. 2018: 0.25% salary decrease** | |
| Discount rate 1.8%; salary increase 2.05%; pension increase 2.0% | 20,685 |
| **Carrying amounts as at 31 Dec. 2018: 0.25% pension increase** | |
| Discount rate 1.8%; salary increase 2.3%; pension increase 2.25% | 21,244 |
| **Carrying amounts as at 31 Dec. 2018: 0.25% pension decrease** | |
| Discount rate 1.8%; salary increase 2.3%; pension increase 1.75% | 20,151 |
| **Carrying amounts as at 31 Dec. 2018: +1 year life expectancy** | |
| Discount rate 1.8%; salary increase 2.3%; pension increase 2.0% | 21,646 |
| **Carrying amounts as at 31 Dec. 2018: -1 year life expectancy** | |
| Discount rate 1.8%; salary increase 2.3%; pension increase 2.0% | 19,760 |
| **Carrying amounts as at 31 Dec. 2018: previous year's discount rate** | |
| Discount rate 1.3%; salary increase 2.3%; pension increase 2.0% | 21,829 |

**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. 2018: 0.25% discount rate increase** | |
| Discount rate 2.05%; salary increase 2.3%; pension increase 2.0% | 9,964 |
| **Carrying amounts as at 31 Dec. 2018: 0.25% discount rate decrease** | |
| Discount rate 1.55%; salary increase 2.3%; pension increase 2.0% | 10,516 |
| **Carrying amounts as at 31 Dec. 2018: 0.25% salary increase** | |
| Discount rate 1.8%; salary increase 2.55%; pension increase 2.0% | 10,526 |
| **Carrying amounts as at 31 Dec. 2018: 0.25% salary decrease** | |
| Discount rate 1.8%; salary increase 2.05%; pension increase 2.0% | 9,954 |
| **Carrying amounts as at 31 Dec. 2018: previous year's discount rate** | |
| Discount rate 1.3%; salary increase 2.3%; pension increase 2.0% | 10,692 |

The HYPO NOE Group does not have any plan assets.

## 6.20 Tax liabilities

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Current tax liabilities | 13,574 | 19,349 |
| Deferred tax liabilities | 27,696 | 43,371 |
| **Total** | **41,271** | **62,720** |

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.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Financial assets – AC | 159,995 | N/A |
| Loans and advances to banks | N/A | 7 |
| Loans and advances to customers | N/A | 157,981 |
| Risk provisions | N/A | 5,877 |
| Financial assets – mandatorily FVTPL | 3,076 | N/A |
| Financial assets – HFT | 98,356 | N/A |
| Assets – HFT | N/A | 106,829 |
| Positive fair value of hedges (hedge accounting) | 80,076 | 86,244 |
| Financial investments IAS 39 | N/A | 42,340 |
| Financial investments IFRS 9 | 23,108 | N/A |
| Other assets | 490 | 95 |
| Provisions | 1,995 | 3,271 |
| Other liabilities | 4,444 | 3,810 |
| **Deferred tax liabilities before offsetting** | **371,540** | **406,455** |
| Less deferred tax assets | -343,844 | -363,083 |
| **Reported net deferred tax liabilities** | **27,696** | **43,371** |

## 6.21 Other liabilities

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Accruals and deferrals | 21,810 | 24,492 |
| Other liabilities | 106,698 | 115,353 |
| Trade payables | 24,340 | 22,055 |
| Outstanding invoices | 53,772 | 77,331 |
| VAT and other tax liabilities (other than income tax) | 6,893 | 3,274 |
| Legal and consultancy costs | 524 | 656 |
| Phantom-share-based cash incentives | 34 | 457 |
| **Total** | **128,507** | **139,845** |

## 6.22 Supplementary capital

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Supplementary capital | 1,453 | 1,453 |
| Subordinated loans | 1,453 | 1,453 |

## 6.23 Equity

As was the case a year earlier, at 31 December 2018 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 2018 the share capital (issued capital) of HYPO NOE Landesbank für Niederösterreich und Wien AG was also unchanged, at EUR 51,980,500; it is fully paid-up. Every share confers the right to one vote. In 2018, a dividend of EUR 3,500,000 for 2017 was paid to the owners. This corresponds to a rounded-up dividend yield of EUR 0.49 per share. Management proposes the distribution of EUR 3,500,000 in dividends in 2019.

The Management Board is empowered to issue additional Tier 1 capital and to establish the conditions for this, subject to the approval of the Supervisory Board.

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

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

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

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Share capital | 51,981 | 51,981 |
| Capital reserves | 191,824 | 191,824 |
| Appropriated reserve | 94,624 | 94,624 |
| Unappropriated reserve | 97,200 | 97,200 |
| Revaluation surplus | 13,375 | 41,818 |
| Retained earnings | 398,240 | 380,839 |
| **Equity attributable to owners of the parent** | **655,419** | **666,462** |
| Non-controlling interests | 7,978 | 8,385 |
| **Total** | **663,398** | **674,848** |

## 6.24 Consolidated capital resources and regulatory capital adequacy requirements

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

In order to increase the resilience of Austrian banks against specific systemic risks, the FMA prescribes additional equity buffers for specifically listed domestic banks, under the Kapitalpuffer-Verordnung (Capital Buffer Order), in the form of a hard Tier 1 capital ratio. The original order (Federal Law Gazette II No. 435/2015) has since been amended three times (Federal Law Gazette II No. 117/2016, 357/2017 and 355/2018), without affecting the HYPO NOE Group. Since 1 January 2016 the Group has been obliged to meet an additional hard Tier 1 capital requirement, equal to 1% of the total risk exposure calculated in accordance with Art. 92(3) CRR, as part of the systemic risk buffer arrangements established by section 23d Banking Act.

The phased introduction of the capital conservation buffer in accordance with section 23 Banking Act, in equal steps, began at the start of 2016. When complete in 2019, this will represent an additional own funds requirement in the form of hard Tier 1 capital of 2.5% of the total risk exposure; during the reporting period the buffer was 1.875% of total risk exposure.

Determination of the additional own funds requirement (likewise in the form of hard Tier 1 capital), created by the countercyclical capital buffer stipulated by section 23a Banking Act, also commenced at the beginning of 2016. The calculation basis is the exposures defined by the Capital Buffer Order. As at the end of the reporting period, the following countries had buffers of the stated amounts: the Czech Republic (1.0%); the Hong Kong Special Administrative Region (1.875%); Iceland (1.25%); Lithuania (0.5%); Norway (2.0%); Slovakia (1.25%); Sweden (2.0%); and Ukraine (1.0%). According to the European Systemic Risk Board and the Bank for International Settlements, in 2019 the Czech Republic (1.5%), Hong Kong (2.5%), Iceland (1.75%), Lithuania (1.0%), Norway (2.5%), Slovakia (1.5%) and Sweden (2.5%) will increase their buffer requirements at different junctures, while Bulgaria (0.5%), Denmark (1.0%), France (0.25%) and Ireland (1.0%) will be introducing buffers with varying timing, and in some cases in stages. The Group was not confronted with a major increase in its equity needs in 2018 as a result of these buffer requirements (approx. EUR 880thsd or 0.029% as at 31 Dec. 2018, compared with EUR 472thsd or 0.014% at year-end 2017). The announced changes are only expected to raise the own funds requirement at year-end 2019 to about EUR 2.0m or 0.06%, which is still insignificant.

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

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

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

As of the end of April 2018, HYPO NOE Landesbank für Niederösterreich und Wien AG and the HYPO NOE Group met the TSCR requirement of an additional 1.8% of equity set by the FMA. This meant that HYPO NOE Landesbank and the HYPO NOE Group were then required to comply with minimum capital ratios of 5.5% for hard Tier 1 capital, 7.4% for Tier 1 capital and 9.8% for total capital.

The Group's Tier 1 capital ratio and equity ratio at the end of the reporting period were 20.97% — once again, more than double the regulatory Tier 1 and total capital ratios for the 2018, including all buffer requirements.

As no developments that would lead to a significant reduction are anticipated in 2019, all the regulatory requirements should continue to be comfortably met.

## CAPITAL MANAGEMENT

**Determination of capital requirements and investment opportunities**

Management sets out to manage the Company's capital in a responsible and value-led manner, in the interests of its owner. The methods primarily used are budget and scenario analysis. Taking the current capital situation as their starting point, these take account of specific economic parameters over a five-year, medium-term planning horizon. Among other things, it is necessary to assess whether the risk-bearing capacity (Pillar II) is conformed to, given the planning assumptions made.

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

The Group's budgeting and medium-term planning takes place in close consultation with all the market departments, Treasury/Capital Market/FI, ALM, Strategic Risk Management, Controlling, Human Resources, Group Accounting, Participations, and the chief executives of the subsidiaries concerned. There are regular liaison discussions with the Management Board. The medium-term plan is usually approved by the Management Board on an annual basis and notified to the Supervisory Board.

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

**Basel Committee on Banking Supervision (BCBS) Paper 277**

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

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

**Capital management actions in 2018**

No unforeseen capital measures were necessary in 2018. The profit for the year was partly retained and used to strengthen the Company's capital.

The own funds of the HYPO NOE Landesbank für Niederösterreich und Wien AG banking group, calculated in accordance with the CRR/CRD IV requirements, are made up as follows:

| EUR '000 | CRR/CRD IV 31 Dec. 2018 | CRR/CRD IV 31 Dec. 2017 |
|---|---|---|
| Share capital | 136,546 | 136,546 |
| Paid-up capital instruments | 51,981 | 51,981 |
| Premiums | 84,566 | 84,566 |
| Reserves, differences and non-controlling interests | 512,118 | 522,464 |
| Retained earnings | 391,791 | 375,872 |
| Other reserves | 104,744 | 104,744 |
| Transitional adjustments for additional minority interests | – | 121 |
| Accumulated comprehensive income | 15,584 | 41,728 |
| Prudential filter: adjustments due to the prudential measurement requirements | -1,793 | -3,664 |
| Other transitional adjustments to hard Tier 1 capital | – | -9,399 |
| Intangible assets | -719 | -862 |
| Hard Tier 1 capital | 646,153 | 645,086 |
| Additional Tier 1 capital | – | – |
| **Tier 1 capital** | **646,153** | **645,086** |
| Deductions due to investments, pursuant to Art. 36 and Art. 89 CRR | – | – |
| **Eligible Tier 1 capital** | **646,153** | **645,086** |
| Deductions due to investments, pursuant to Art. 36 and Art. 89 CRR | – | – |
| **Total eligible capital** | **646,153** | **645,086** |
| **Own funds requirements** | **246,527** | **260,141** |
| **Excess equity** | **399,626** | **384,945** |
| | | |
| Coverage ratio (%) | 262.10% | 247.98% |
| Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR | 20.97% | 19.84% |
| Tier 1 capital ratio In accordance with Art. 92(2)(b) CRR – fully loaded | 20.97% | 20.12% |
| Total capital ratio in accordance with Art. 92(2)(c) CRR | 20.97% | 19.84% |
| Total capital ratio In accordance with Art. 92(2)(c) CRR – fully loaded | 20.97% | 20.12% |

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

| EUR '000 | CRR/CRD IV 31 Dec. 2018 | CRR/CRD IV 31 Dec. 2017 |
|---|---|---|
| Risk-weighted exposure to credit risk | 2,690,759 | 2,834,640 |
| 8% minimum capital requirement | 215,261 | 226,771 |
| Capital requirement for open currency positions | 2 | – |
| Capital requirement for operational risk | 24,367 | 24,556 |
| Capital requirement for CVA | 6,897 | 8,814 |
| **Total capital requirement** | **246,527** | **260,141** |

The first-time application effect of IFRS 9 on the CRR Tier 1 capital and CRR total capital ratios on the basis of the consolidated financial statements should, in particular, be seen in the light of the expiry of the transitional provision Art. 468(2) CRR in conjunction with section 2(2) CRR Implementing Order. Due to this provision, as of 31 December 2017 there was still a 20% deduction from the CET 1 of unrealised gains measured at fair value, which in the case of the HYPO NOE Group totalled EUR 9.4m at the time. This deduction was no longer applicable to the comparative calculation based on the opening balance as at 1 January 2018, and at the same time the revaluation surplus related to debt and equity instruments, which was the basis for this regulatory deduction, was almost halved by reclassifications of financial instruments Taking account of these two material effects and the additional specific risk provisions, which affected both the capital, via the profit brought forward, and the risk-weighted assets (RWA), the decline in the Tier 1 capital ratio and equity ratio was almost 0.70 percentage points. According to the results of a survey conducted by the FMA, this was roughly average for the Austrian banks, and was significantly lower than the median effect (-157 basis points) at the standardised approach banks.

The total own funds requirement as at 31 December 2018 was EUR 246.5m (31 Dec. 2017: EUR 260.1m) — a reduction of EUR 13.6m or 5.2%. All the risk categories played a part in this shift, but the main factor was reduced credit risk, which lowered the capital requirement by EUR 11.5m. To a lesser extent this change is explained by the Stage 1 (12-month expected credit losses) and Stage 2 (lifetime expected credit losses) impairments recognised in accordance with IFRS 9, but the main cause was the decline in claims and hence in the RWA in the following exposure classes: institutions (equity requirement down by EUR 3.2m); collective investment undertakings (equity requirement down by EUR 4.4m); and past due (equity requirement down by EUR 4.4m). The overall decline of almost EUR 800m in the exposures was mainly driven by low lending volumes in the low-risk regional governments and local authorities, and central governments and central banks classes, whereas the "secured by real estate property" class jumped by EUR 235.4m.

Total eligible capital was EUR 646.2m (31 Dec. 2017: EUR 645.1m), and was EUR 1.1m up year on year despite the aforementioned effect of introducing IFRS 9 — chiefly as a result of the excellent profit for the year. Similarly, the expiry of all the transitional CRR provisions relevant to the HYPO NOE Group on 31 December 2017 and the somewhat lower regulatory capital deductions made a positive contribution. The EUR 5.4m decline in the revaluation surplus as compared to the IFRS 9 opening balance had the opposite effect.

# 7. SEGMENT INFORMATION

The Bank's segment reporting is based on IFRS 8. The Group's Management Board, as its main decision-making body, receives quarterly information relevant to its duties in the form of IFRS 8-compliant segment reports. These contain a statement of profit or loss for each segment, as well as statements of segment assets and liabilities, and comments.

In addition to the quarterly segment reports, the Management Board also receives aggregated monthly figures which support management control of the Group.

The organisational and management structure of the HYPO NOE Group is based on areas of activity and customer groups. In the interests of an improved Group structure, in 2018 additional synergies were leveraged by streamlining the Group's organisation. Details are given in the operational review.

Segment reporting has been adjusted to the new organisational structure. The changes in segment reporting were made in accordance with paragraph 29 IFRS 8, meaning that the previous year's figures have been restated to reflect the new segmentation. Information on the changes to segment reporting is given in the description of the operating segments below.

In its capacity as the Group's most senior managing body, the Management Board regularly monitors the evolution of profit before tax across the various business segments, and takes decisions on the management of the Group in the light of the segment reports.

The profit centre accounting of HYPO NOE Landesbank für Niederösterreich und Wien AG and the subsidiaries' IFRS financial statements are the basis of the segment reporting. The same accounting policies as those enumerated in Note 2 Accounting policies are applied to the preparation of these statements.

The apportionment of income in the profit centre accounting is based on Schierenbeck's market interest method. Interest income and expense are divided into a customer interest margin and a structural contribution (interest maturity transformation), and imputed refinancing costs (liquidity costs) are allocated directly to assets and liabilities. The resulting costs and income from liquidity maturity transformation, and the results of interest maturity transformation are allocated to the Treasury & ALM segment. As a result of this approach, which is the norm in the banking sector, segment information does not include gross figures for net interest income.

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

The segment assets and liabilities reported relate to on-balance-sheet front-office business in the operating segments. Equity is reported under the Corporate Center's segment liabilities.

The analysis by geographical areas in accordance with paragraph 33 IFRS 8 is based on the domiciles of reporting entities, and accordingly all interest income is allocated to Austria. Group non-current assets are almost entirely located in Austria, the exception being the carrying amounts of the foreign subsidiaries of HYPO NOE First Facility GmbH.

A breakdown by products and services in accordance with paragraph 32 IFRS 8 is not provided, as the necessary information is not available in full on a regular basis, and the cost to develop it would be excessive.

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

**Public Sector segment**

This segment is home to lending and deposit-taking business with public sector and government-linked customers (primarily state governments, local authorities, public agencies and infrastructure companies). In addition to conventional loans the focus is on bespoke financing models in the Bank's core markets of Lower Austria and Vienna, as well as in selected countries and major cities in the CEE region. Earnings from the administration of state-subsidised homebuilding loans, a service provided for the public sector by the HYPO NOE Group, are also reported under this segment.

Likewise all the earnings of the leasing subsidiaries (formerly the Leasing sub-group), which are almost entirely derived from leasing transactions with the public sector and public agencies, are allocated to this segment. The leasing subsidiaries provide the following products: complex, project-based real estate lease agreements, real estate project management services and business management services.

Financing and deposit-taking business with religious communities, interest groups and agriculture customers accounts for a small proportion of the segment's business volume and earnings.

A business relationship with a major customer in the meaning of paragraph 34 IFRS 8 is included in the Public Sector segment. The customer in question is a public authority, and the services provided to it include leases, as well as lending and deposit taking. Dealings with this customer and its allocable group entities, in accordance with the definition of major investments and without recourse to the exemption for sub-groups, generated net interest income of EUR 22.3m. This figure is made up of EUR 7.0m from direct business relationships with the customer, EUR 4.9m from direct business relationships with allocable group members, and EUR 10.4m from indirect business relationships in the form of lease refinancing.

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

It does not include the equity holding in EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (EWU), accounted for using the equity method. This is run by the investment management unit of HYPO NOE Landesbank für Niederösterreich und Wien AG, and is allocated to the Corporate Center.

**Retail and Corporate Customers segment**
This segment provides banking services for retail, self-employed and business customers.

The HYPO NOE Group's branches provide outstanding service to retail, self-employed and corporate customers in the Group's core market of Lower Austria and Vienna. The products are attuned to the Bank's core competences, and are organised around finance and housing, saving and investment, and accounts and cards. The product portfolio encompasses the full range of conventional banking products, from lending with an emphasis on housing construction, and investment products in the form of savings and security custody accounts, through to current accounts and credit cards. Close cooperation with the State of Lower Austria enables the Group to offer one-stop consultation on loans and subsidies, assuring customers of sound advice and rapid processing.

This segment is also responsible for providing a comprehensive range of services for corporate customers. It is subdivided into a number of customer service units. Besides a team dedicated to SMEs there is a group focusing on large corporates, as well as a team specialised in structured transactions and product solutions, especially subsidised loans and export finance.

The insurance brokerage business of HYPO NOE Versicherungsservice GmbH (HVS) is also included in this segment. Group company HVS acts as an independent broker and advises HYPO NOE Group customers on insurance matters.

In 2017 the business activities related to large companies were attributed to the former Real Estate & Large Corporates segment (now renamed Real Estate Customers). Due to organisational changes which also led to adjustments to management responsibilities, the business activities involving large corporates are now assigned to the Retail and Corporate Customers segment.

**Treasury & ALM segment**
The Treasury & ALM segment encompasses all of the HYPO NOE Group's capital market operations and interbank business. This includes capital market refinancing, and interest rate and liquidity management activities, as well as liquidity buffering using high-quality liquid assets and central bank deposits, and management of foreign exchange risk. This segment also includes the earnings contributions of the Group's asset liability management (ALM) activities. From a regulatory perspective, the HYPO NOE Group's trading book is small. Consequently, earnings in this segment are not materially affected by the trading activities.

**Real Estate Services segment**
Besides conventional banking activities, the HYPO NOE Group provides services along the entire real estate value chain. The HYPO NOE Group's real estate service portfolio comes under the umbrella of HYPO NOE Immobilien Beteiligungsholding GmbH, and includes the wholly owned subsidiaries HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH, as well as NOE Immobilien Development GmbH (NID), a property development company that is accounted for using the equity method.

The Group's property companies operate under a single brand, HYPO NOE Immobilien. With the overarching goal of acting as a single-source provider of the entire spectrum of real estate management services, this holding company runs facility, property and project management, real estate marketing and estate agency, and project development service businesses.

These activities were included in the former Real Estate &

Large Corporates (now Real Estate Customers) segment in the 2017 annual report. Due to organisational changes which also entailed modifications to management responsibilities, the real estate businesses are now reported as a stand-alone segment.

**Corporate Center**
The Corporate Center segment serves to reconcile the operating segments' results with the consolidated totals. It is used for consolidation entries, as well as activities and ancillary services that do not belong to another segment and are too small to constitute reportable segments in their own right.

Among the bank support services are companies that manage properties primarily used by the Group and related assets. These entities include Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H., Benkerwiese Mietergemeinschaft GmbH, Unternehmens-, Verwaltungs- und Verwertungsgesellschaft m.b.H.. The now-liquidated real estate valuation subsidiary HYPO NOE Valuation & Advisory GmbH also provided ancillary services. These subsidiaries' activities have been integrated with HYPO NOE Landesbank für Niederösterreich und Wien AG. The rental expenses and valuation costs charged on by these firms are allocated to the operating segments' administrative expenses on a causation basis.

Income and expenses generated by interests administered by the investment management unit of HYPO NOE Landesbank für Niederösterreich und Wien AG are also allocated to the Corporate Center segment. Among the entities concerned are EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (EWU), Niederösterreichische Vorsorgekasse AG and Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H. Readers are referred to Note 3.2 Investments for details of measurement, and in particular that of EWU in accordance with IAS 36.

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

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

- Cost of cash collaterals for customer derivatives in the absence of collateral agreements
  The assets of HYPO NOE Landesbank für Niederösterreich und Wien AG include large cash collateral positions which hedge the fair value of derivatives. A large proportion of these collaterals arise from derivative contracts with customers that were concluded in the absence of accompanying collateral agreements. The risk limits nevertheless made market hedging of these customer derivatives mandatory, although collateral obligations were not yet the market standard when most of the transactions were concluded. As a result of developments on financial markets and changes in the regulatory framework, hedging of derivative contracts between banks by means of cash collaterals is now common practice or mandatory (the clearing obligation). Where customer derivatives are not secured by collateral agreements the HYPO NOE Group does not receive collateral from customers but must post cash collaterals with the hedging partners. Liquidity costs are incurred when refinancing these collaterals. Treasury & ALM is responsible for managing all the collateral positions, but the refinancing costs attributable to them are allocated to the Corporate Center segment. Collateral requirements for future customer derivatives will be met by means of pricing or collateral agreements with customers, and are therefore not included in this asymmetric allocation.
- Effects of the Austrian Supreme Court's ruling on negative interest rates for consumer loans
- Legal risk provision for the potential repayment of negative interest in the case of corporate loan agreements
  Details are given in Note 6.19 Provisions.

**Business models applied in segments pursuant to IFRS 9**
The HYPO NOE Group has determined the business models applied in its operating segments as required by IFRS 9. Detailed information on this is provided by Note 3.3.1 The HYPO NOE Group's business models.

- "Hold to collect" business model
  In principle, the operations of the Public Sector, Real Estate Customers, and Retail and Corporate Customers segments are subject to this business model. Exceptions may arise from portfolio drawdown strategies or planned loan syndications. In the case of planned syndications, the portion of the loan to be syndicated is allocated to the "hold to collect and sell" or "do not hold" business models according to the definiteness of the intention to syndicate. There are no such cases at present. Financial instruments mandatorily measured at FVTPL held in the above segments, which are to be measured at fair value because they meet the SPPI criterion, are sales of loans

that are close to maturity or are subject to the same rules as those for "hold to collect" securities because of deteriorating credit ratings. The same applies to the limits for irregular or immaterial sales of loans. Specific portfolios held by Treasury & ALM are assigned to this business model under the nostro strategy.

- "Hold to collect and sell" business model
  This business model is applied to portfolios of assets defined by the nostro strategy which are allocated to the Treasury & ALM segment.

## 7.1 Business segment information

The bottom line of the internal segmental reporting is profit/loss before tax. "Income tax expense" and "Results of discontinued operations", in the Group column, reconcile the segmental analysis with the consolidated financial statements.

### 7.1.1 SEGMENT PROFIT OR LOSS BEFORE TAX

The bottom line of the internal segmental reporting is profit/loss before tax. "Income tax expense" and "Non-controlling interests", in the Group column, reconcile the segmental analysis with the items in the consolidated financial statements. The presentation in the notes corresponds to internal reporting.

| 31 Dec. 2018, EUR '000 | Public Sector | Real Estate Customers | Retail and Corporate Customers | Treasury & ALM | Real Estate Services | Corporate Center | Group |
|---|---|---|---|---|---|---|---|
| Net interest income | 36,174 | 24,501 | 36,136 | 23,182 | 189 | -8,248 | 111,933 |
| Net fee and commission income | 3,125 | 1,063 | 11,663 | -1,055 | -2 | -3 | 14,791 |
| Net gains or losses on financial assets and liabilities | -652 | -466 | 337 | 1,414 | -3 | 13,603 | 14,233 |
| Net other operating income | 5,559 | 3,653 | 1,073 | 1,969 | 20,412 | -22,913 | 9,753 |
| Net gains or losses on investments accounted for using the equity method | -231 | – | – | – | -565 | 262 | -534 |
| Administrative expenses | -25,560 | -11,973 | -46,143 | -15,832 | -12,734 | -531 | -112,774 |
| Impairment losses/gains on financial assets – IFRS 9 ECL | 468 | 4,333 | 5,596 | 73 | 120 | – | 10,590 |
| **Profit before tax** | **18,883** | **21,111** | **8,662** | **9,752** | **7,416** | **-17,832** | **47,992** |
| Income tax expense | | | | | | | -11,548 |
| **Profit for the year** | | | | | | | **36,444** |
| **Segment assets** | **7,540,150** | **1,610,080** | **1,771,099** | **2,973,474** | **47,220** | **118,043** | **14,060,065** |
| **Segment liabilities** | **1,998,167** | **268,792** | **2,174,013** | **8,854,483** | **6,023** | **758,588** | **14,060,065** |

| 31 Dec. 2017, EUR '000 | Public Sector | Real Estate Customers | Retail and Corporate Customers | Treasury & ALM | Real Estate Services | Corporate Center | Group |
|---|---|---|---|---|---|---|---|
| Net interest income | 34,050 | 29,597 | 34,394 | 20,751 | 38 | -9,969 | 108,861 |
| Net fee and commission income | 3,005 | 762 | 11,621 | -238 | – | 232 | 15,382 |
| Net trading income | 5,001 | -267 | 4 | -5,247 | – | – | -509 |
| Net gains or losses on hedges | – | – | – | -5,369 | – | – | -5,369 |
| Net gains or losses on financial assets designated as at fair value through profit or loss | – | 57 | – | – | – | – | 57 |
| Net gains or losses on available-for-sale financial assets | – | – | – | -163 | – | – | -163 |
| Net other operating income | 2,653 | 1,757 | 1,174 | 16,190 | 11,397 | -2,648 | 30,523 |
| Net gains or losses on investments accounted for using the equity method | 189 | – | – | – | -638 | -2,863 | -3,312 |
| Administrative expenses | -27,427 | -12,372 | -45,586 | -16,465 | -13,299 | -656 | -115,805 |
| Risk provisions | -725 | 6,227 | 3,613 | -66 | 56 | -5 | 9,100 |
| **Profit before tax** | **16,746** | **25,761** | **5,220** | **9,393** | **-2,446** | **-15,909** | **38,765** |
| Income tax expense | | | | | | | -9,658 |
| **Profit for the year** | | | | | | | **29,107** |
| **Segment assets** | **7,774,332** | **1,543,638** | **1,659,778** | **3,210,908** | **63,089** | **115,439** | **14,367,184** |
| **Segment liabilities** | **2,385,767** | **377,264** | **2,293,024** | **8,542,067** | **4,929** | **764,134** | **14,367,184** |

Application of IFRS 9 came into effect on 1 January 2018, requiring significant changes in the Group's accounting and hence in the presentation of the business segments' performance. Under IFRS 9 it is necessary to highlight positive and negative changes in the quality of the Group's portfolio of financial instruments, as risk provisions must now also be recognised for performing exposures. In particular, substantial allocations to these risk provisions must be made where there has been a significant increase in the risk of default since initial recognition. If loan quality improves the provisions must be reversed. In addition, as a result of the introduction of SPPI criteria, for the first time business segments are faced with portfolios of investments subject to mandatory measurement at fair value. Such portfolios cause fluctuations in results — particularly in the Treasury & ALM segment.

The figures for the year ended 31 December 2017 are based on IAS 39, which was the applicable standard during that period, and should therefore be read with the aforementioned accounting changes in mind.

As in 2017, during the reporting period administrative expenses were reduced as a result of strict cost management.

**Public Sector segment**
The Public Sector segment remains the largest in the Group, despite a decrease in business volume in 2018, and holds over 50% of the Group's total assets.

The year also witnessed a fall in segment liabilities, which was chiefly due to a managed decline in fixed-term customer deposits in the Religious Communities, Special Interest Groups and Agriculture unit.

The main factors behind the improved net interest income result posted by the Public Sector segment were the higher interest income generated by the leasing subsidiaries and the increase in the net interest income generated by Religious Communities, Special Interest Groups and Agriculture.

Net gains or losses on changes in fair value and trading in the Public Sector segment are largely driven by the measurement effects of CVA and OIS Euribor discounting. All the customer derivatives have economic hedges. In 2017 such measurement effects had a positive impact on this earnings component.

"Net other operating income" recorded a year-on-year increase in 2018. In 2017 segment net other operating income was depressed by the consolidation of BSZ Eisenstadt and the allocation of a legal risk provision.

**Real Estate Customers segment**
In 2018 net interest income in the Real Estate Customers segment was squeezed by the premature repayment of high-interest exposures, and fell by EUR 5.1m.

This budgeted deterioration in net interest income was only partly cushioned by the effect of higher penalties, at EUR 3.6m (2017: EUR 1.6m), on "Net other operating income".

**Retail and Corporate Customers segment**
Due to increased net interest income thanks to steady growth, further gains on risk provisions and lower costs, Retail and Corporate Customers boosted profit before tax to EUR 8.7m from EUR 5.2m. This result is highly satisfactory in the light of the stiff competition faced by the segment, and of the low interest rate environment.

Mandatory measurement of financial instruments at fair value in line with the SPPI criteria established by IFRS 9 was another positive factor.

The repercussions of the Austrian Supreme Court ruling on negative interest rates on consumer loans are not reported in this segment, as these developments are beyond the control of its management and the segment is not responsible for managing the impact on results.

**Treasury & ALM segment**
The challenges associated with liquidity management in connection with the redemption of state-government-backed bonds in 2017 were successfully overcome, thanks in part to far-sighted pre-funding activities. Net interest income advanced by EUR 2.4m year on year, mainly reflecting the cost of liquidity management in 2017.

The successful flotation of bond issues in 2018 led to an increase in segment liabilities.

Mandatory measurement of financial instruments at fair value in accordance with IFRS 9 weighed on "Measurement gains or losses" in 2018. This item was particularly negatively impacted by fund positions that had already been exited, a steepener redeemed during the first half, and a CMS. These effects were offset by gains on disposals of securities in the course of the year.

**Real Estate Services segment**
The Real Estate Services segment's figures feature a marked increase in "Net other operating income" as compared to 2017. This gain largely reflected the disposal of Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH, which raised EUR 8.4m.

**Corporate Center**
Net interest income in the Corporate Center in 2018 includes asymmetrical allocations relating to collateral costs of EUR 4.3m (2017: EUR 5.5m), as well as negative interest of EUR 3.2m (2017: EUR 3.1m) on consumer loans for the current financial year.

Also shown under segment net interest income is the cost of refinancing ancillary companies (mainly Group properties).

"Net gains on financial assets and liabilities" of EUR 13.6m were chiefly attributable to measurement of the HETA contingent purchase price.

Net other operating income in the Corporate Center segment includes specific material earnings from prior periods and non-recurring earnings and expenses relating to the Bank as a whole. The reason for this is to avoid sending distorted signals to management at segment reporting level. The main such items in 2018 were a provision for negative interest on corporate loans and a one-time expense arising from a project. In 2017 they were expenses for allocations to a provision for negative interest in prior periods, as well as the proceeds of the sale of a Bank property.

Net losses on investments accounted for using the equity method in the Corporate Center were significantly affected by downward adjustments to the value in use of the EWU non-profit sub-group of EUR 1.0m (2017: charge of EUR 4.5m).

# 8. SUPPLEMENTARY INFORMATION

## 8.1 Fair value disclosures

### 8.1.1 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

IFRS 13 applies to the categories of financial instruments established by IFRS 9, as well as to those where fair value is required under other standards, and to other unrecognised instruments. 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. 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.

**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, similar assets or liabilities in markets that are not active, as well as other observable data relevant to valuation). This chiefly applies to OTC derivatives (financial assets and liabilities held for trading, and positive and negative fair values of hedges) and securities not listed on active markets.

Measurement is based on directly or indirectly observable inputs for similar assets, using a market approach and an income approach. A market approach is applied to measure receivables in respect of securities, largely based on market prices for the asset in question or analogously on market prices for similar assets or liabilities. An income approach is applied in the measurement of receivables from securities and OTC derivatives, to determine the discounted value of all future payments at the respective 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 on capital markets are employed as pricing parameters. Common options pricing models are used to value options (in particular caps, floors and call rights embedded in issues and the related hedges). These models include indirectly observable parameters in the form of implicit interest rate volatility figures from established market data providers, derived from prices quoted on options markets.

**Level 3: valuation techniques based on unobservable inputs**
The Strategic Risk Management Department defines the methods to be applied in valuation, in accordance with the relevant measurement guidelines. The measurement guidelines, which are regularly revised by the Market and Liquidity Risk team and approved by Management, define the process-related and operational rules for determining fair value in accordance with IFRS. The Market and Liquidity Risk team carries out fair value measurement of Level 3 assets and liabilities on a monthly basis. The parameters applied are tested for plausibility as part of the monthly measurement process. Corrections are made when justified, and documented. Management is kept informed of changes in fair value measurements by means of monthly reports. Reports include an analysis and plausibility assessment of changes, including an explanation of the main reasons behind a change in value.

Measurement is based on directly observable, unobservable and materially significant inputs. 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 based on internal pricing and calculation models are employed as pricing parameters.

Financial assets and liabilities measured at fair value using Level 3 inputs include items under "Financial assets – mandatorily FVTPL" in the statement of financial position and loans recognised under "Financial assets – AC". For the latter item, fair value is determined for the purpose of fair value disclosures in accordance with paragraph 97 IFRS 13.

Default risk, liquidity costs and the epsilon are employed as measurement parameters for financial assets mandatorily measured at FVTPL and FVOCI (debt instruments) measured using Level 3 inputs. Default risk is measured using the PD and LGD parameters, as well as eligible collateral. Liquidity premiums are calculated by means of the internal liquidity cost model. Upon conclusion of a transaction, the delta for the price is offset using epsilon calibration. For defaulted assets, different assumptions are made for the cash flows from the collateralised and uncollateralised portions of the instrument with regard to their due dates. The discount factor applied takes account of the risk-free interest rate, the senior unsecured liquidity costs according to the maturity of individual cash flow, and the expected equity yield based on ROE.

"Financial assets – HFT" contains measurements of uncollateralised customer derivatives (e.g. the ISDA agreement

CSA). These are measured using an internal model based on the discounted cash flow (DCF) method, taking account of the current interest rate and basis spread curves. Suitable models are used in the measurement of embedded options. Credit risk and counterparty credit risk (debt value adjustment and credit value adjustment) are taken into consideration when calculating the fair value of all uncollateralised customer derivatives. However, since issuance by customers is minimal to non-existent, and it is not possible to determine credit spreads on the basis of quoted prices, the credit spreads for instruments with matching maturities are calculated using global CDS index curves in line with the internal credit rating for the customer. A hybrid Hull-White model is used to calculate CVA/DVA.

Working in concert with other organisational units, the General Secretariat/Participations Department coordinates and implements the process for determining fair values stated under "Financial assets – FVOCI" (equity instruments), for which the Group's binding measurement guidelines provide the framework. These guidelines include the methods, processes and legal provisions relevant to measurement. They provide the basis for the implementation of internal measurement processes and set out the key principles, objectives and parameters for making business decisions, based on the measurement in question. The measurement guidelines are regularly updated by the General Secretariat/Participations Department and approved by Management.

The department measures the fair values of financial assets measured at FVOCI (equity instruments) on a quarterly basis. Measurement inputs and other qualitative and quantitative factors are also analysed quarterly. The changes in fair values must be approved by Management.

For bonds recognised under "Financial assets – AC" and subject to measurement using Level 3 inputs, the credit spread based on comparable assets (peer group) is used as a measurement parameter. For all other receivables included in "Financial assets – AC", the same measurement parameters are applied as for financial assets mandatorily measured at FVTPL.

The fair values of investment properties (recognised at cost) are regularly measured by professional assessors (using an income approach). Level 3 classifications are based on unobservable market data such as the multiplier (reciprocal value of the risk-weighted interest rate) for similar assets.

**Measurement model for the HETA contingent additional purchase price**

All senior and junior creditors that participated in the KAF second tender offer are entitled to the contingent additional purchase price (CAPP), irrespective of whether they opted for the cash or exchange offer. The threshold for the CAPP and payment conditions are defined in the second tender offer.

The CAPP to which the HYPO NOE Group is entitled is measured using an internal model, since it concerns an entitlement and not a financial instrument that can be traded. There is neither a liquid market nor are there observable market transactions for the asset. The parameters for the model were determined using available official information concerning HETA and information from the Austrian Financial Market Authority (FMA), as well as a scenario analysis. This takes account of information and assumptions that market participants would apply when determining a price.

The internal model is based on the following information:
- HETA's 2017 annual financial statements
- HETA's presentation of 15 June 2018 on the wind-down plan pursuant to the 2018 Bundesgesetz zur Schaffung einer Abbaueinheit (Wind-Down Entity Act)
- HETA press release of 19 December 2018
- KAF's second tender offer
- FMA's second administrative decision on HETA, 2 May 2017

The HYPO NOE Group took up the swap offer in KAF's second tender offer. Under the related contractual terms, the possible range for the CAPP is between 0% and 10%.

The measurement model determines the expected amount recovered from the HETA wind-down on the basis of five different scenarios. The base-case scenario uses HETA's internal assumptions for the expected wind-down proceeds. It corresponds with the official HETA scenario and, despite the risks described, it is given the strongest weighting. To reflect the uncertainties involved, four other scenarios are taken into account. In these scenarios, the assumptions regarding the expected amount recovered and the time at which the payout will be made are adjusted, and a level of probability is attached to each scenario. The five scenarios cover a broad range of possible developments and ensure that a reasonable estimate is made of the potential returns from the wind-down and when these will be paid out, taking account of the current uncertainties.

At the time of writing, the resolution authority had given no indication that the wind-down as described in the FMA's second administrative decision on HETA will be completed before 31 December 2023. KAF will only appoint an expert to determine the CAPP after the resolution authority has confirmed the wind-down of HETA, and payment of the CAPP will only take place thereafter. The base-case scenario is based on this time period. In the other scenarios, payout of the CAPP is assumed to be earlier or later, which in turn reflects expectations of better or poorer progress on the wind-down.

The net present value in each scenario is calculated by discounting the gross carrying amount using a customary discounting rate, which comprises a market interest rate, liquidity costs and yield entitlement. The interest rate and liquidity costs take account of the payout date in each scenario. The yield entitlement covers operating costs and earnings entitlements, as well as residual measurement risks (model risk, assumptions, etc.). This entitlement is independent of the scenario, as it reflects the expected total return for an investor.

To determine the final estimate of the additional purchase price, the net present value in the individual scenarios is multiplied by the applied scenario weightings, and the weighted scenarios are then added together. Depending on the parameters defined for each scenario, at 31 December 2018 the additional purchase price ranged from 0% to 8.6%.

Measurement of the CAPP is subject to risks and uncertainties. In addition to the effects of economic developments and the outcomes of ongoing legal disputes relating to HETA on the amount recovered and the payout date, the information published to date by HETA on the wind-down has consistently deviated from actual events. This uncertainty is counteracted by using the most trustworthy information presently available, taking account of various scenarios and the estimated probability that they will occur. The effects of changes to significant unobservable inputs for the measurement model on the valuation are presented in the following sensitivity analysis.

The sensitivity analysis below shows the effect of average changes in individual parameters, with other inputs remaining unchanged. These are categorised as Level 3 (unobservable) inputs. There is no market activity for these assets and liabilities. The amount recovered from the wind-down has a major influence on valuation of the CAPP: a higher amount recovered leads to a higher valuation. The discount factor applied to convert the gross carrying amount to net present value depends on the time of payout and the discount rate. If the discount rate increases or the payout period is expected to be later, the net present value also decreases. The extent of the assumed change in individual parameters represents a realistic degree of change in the input factors in 2019.

| Level 3 inputs: sensitivity analysis | Amount recovered (EUR m) | | Discount rate | | Time of payout (years) | |
|---|---|---|---|---|---|---|
| Change in input | +100 | -100 | +1% | -1% | +1 | -1 |
| Effects of measurement on profit or loss | +0.5% | -0.5% | -0.2% | +0.2% | -0.3% | +0.4% |

**Fair value hierarchy disclosures**

As at 31 December 2018 the HYPO NOE Group had no assets or liabilities that were subject to non-recurring fair value measurement.

| EUR '000 | 31 Dec. 2018 Total fair value | Fair value measurement Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets – HFT | 428,983 | – | 54,413 | 374,570 |
| Financial assets – mandatorily FVTPL | 262,475 | 28,013 | 54,948 | 179,514 |
| Financial assets – FVOCI | 760,215 | 731,267 | 25,438 | 3,510 |
| Positive fair value of hedges (hedge accounting) | 377,134 | – | 377,134 | – |
| **Total assets** | **1,828,807** | **759,280** | **511,933** | **557,594** |
| **Equity and liabilities** | | | | |
| Financial liabilities – HFT | 391,428 | – | 391,428 | – |
| Financial liabilities – FVO | 3,500 | – | – | 3,500 |
| Negative fair value of hedges (hedge accounting) | 665,173 | – | 665,173 | – |
| **Total equity and liabilities** | **1,060,101** | **–** | **1,056,601** | **3,500** |

| EUR '000 | 31 Dec. 2017 Total fair value | Fair value measurement Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and advances to banks | 859,056 | – | 856,868 | 2,188 |
| Loans and advances to customers | 10,300,676 | – | 46,667 | 10,254,009 |
| Assets held for trading | 476,252 | – | 50,384 | 425,868 |
| Positive fair value of hedges (hedge accounting) | 405,229 | – | 405,229 | – |
| Available-for-sale financial assets | 1,594,189 | 1,423,400 | 45,453 | 125,336 |
| Financial assets designated as at fair value through profit or loss | 19,474 | – | – | 19,474 |
| Investments accounted for using the equity method | 24,225 | – | – | 24,225 |
| Investment property | 47,805 | – | – | 47,805 |
| Other assets (incl. IFRS 5) | 239,675 | – | – | 239,675 |
| **Total assets** | **13,966,581** | **1,423,400** | **1,404,601** | **11,138,580** |
| **Equity and liabilities** | | | | |
| Deposits from banks | 1,369,023 | – | 866,733 | 502,290 |
| Deposits from customers | 4,050,281 | – | – | 4,050,281 |
| Debts evidenced by certificates | 6,984,872 | 3,891,828 | 3,089,845 | 3,199 |
| Liabilities held for trading | 432,716 | – | 432,716 | – |
| Negative fair value of hedges | 705,616 | – | 705,616 | – |
| Other liabilities | 139,844 | – | – | 139,844 |
| Subordinated capital | 1,453 | – | – | 1,453 |
| **Total equity and liabilities** | **13,683,805** | **3,891,828** | **5,094,910** | **4,697,067** |

**Transfers between levels**

In 2018 there were no transfers between Levels 1 and 2 of the fair value hierarchy, and no transfers into or out of Level 3.

## FAIR VALUE MEASUREMENTS CATEGORISED WITHIN LEVEL 3

| EUR '000 | 1 Jan. 2018 | Gains/losses recognised in profit or loss | Gains/losses recognised in OCI | Purchases | Sales | 31 Dec. 2018 | Unrealised gains or losses recognised in profit or loss as at 31 Dec. 2018 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Financial assets – HFT | 425,868 | -51,298 | – | – | – | 374,570 | -45,256 |
| Assets held for trading | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Financial assets – mandatorily FVTPL | 188,965 | 20,817 | – | 1,789 | -32,058 | 179,514 | 3,717 |
| Financial assets designated as at fair value through profit or loss | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Financial assets – FVOCI | 3,430 | – | 130 | – | – | 3,510 | – |
| Available-for-sale financial assets | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **Total assets** | **618,263** | **-30,481** | **130** | **1,789** | **-32,058** | **557,594** | **-41,539** |
| **Equity and liabilities** | | | | | | | |
| Financial liabilities – FVO | – | 3,500 | – | – | – | 3,500 | – |
| **Total equity and liabilities** | **–** | **3,500** | **–** | **–** | **–** | **3,500** | **–** |

The gains or losses on assets for which measurements are categorised within Level 3 are largely made up of losses of EUR 45,256thsd on financial assets held for trading (HFT): see Note 5.4 Net gains or losses on financial assets and liabilities (2017: losses of EUR 87,331thsd under "Assets held for trading" included in the statement of profit or loss item "Net trading income").

| EUR '000 | 1 Jan. 2017 | Gains/losses recognised in profit or loss | Gains/losses recognised in OCI | Purchases | Exits (-) | 31 Dec. 2017 | Gains/losses recognised in statement of profit or loss for assets held as at 31 Dec. 2017 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Financial assets – HFT | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Assets held for trading | 501,845 | -75,977 | – | – | – | 425,868 | -87,331 |
| Financial assets – mandatorily FVTPL | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Financial assets designated as at fair value through profit or loss | 20,340 | 57 | – | – | -924 | 19,474 | 57 |
| Financial assets – FVOCI | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Available-for-sale financial assets | 136,467 | -3,053 | 6,266 | 2 | -14,339 | 125,344 | -3,191 |
| **Total assets** | **658,652** | **-78,973** | **6,266** | **2** | **-15,263** | **570,686** | **-90,465** |
| **Equity and liabilities** | | | | | | | |
| Financial liabilities – FVO | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **Total equity and liabilities** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |

**Level 3 sensitivity analysis**

The results of the sensitivity analysis for fair value measurements categorised within Level 3 are described below. Extensive enhancements to risk measurement procedures were implemented in 2018, and uniform sensitivity measurement was introduced in order to facilitate a consistent overview across the various types of risk, as well as to enable comparisons. All sensitivities are presented using a historical value-at-risk (VaR) approach (95% confidence level, one-year holding period, five-year history) in accordance with internal risk management guidelines. The following table shows the impact of changes in significant unobservable inputs on the fair values of financial instruments categorised within Level 3. The figures presented are not a forecast or indication of future changes in fair value, and represent potential losses that could also result in potential gains of a similar amount. In the case of financial assets held for trading, global CDS spreads represent the significant inputs. Their fluctuation in terms of VaR was 39 bp on average across the portfolio as at 31 December 2018. Widening of the spreads reduces the fair value of the items in question. For financial assets mandatorily measured at FVTPL, the credit and liquidity risk premiums are the unobservable inputs that largely determine prices. The designated VaR results in a fluctuation of 50 bp. An increase in premiums results in lower fair values.

| 31 Dec. 2018, EUR '000 | Fair value | Fluctuation (VaR) | Measurement method | Inputs |
|---|---|---|---|---|
| Financial assets – HFT | 374,571 | 988 | Hybrid Hull-White Model | Global CDS spreads |
| Financial assets – mandatorily FVTPL | 158,449 | 5,055 | DCF | Premiums for credit and liquidity risk |
| Financial assets – FVOCI (equity instruments) | 3,510 | N/A | Adjusted net asset value (NAV); DCF | Adjusted equity (for adjusted NAV); WACC (DCF) |
| **Total** | **536,530** | **6,043** | | |

The ranges for unobservable inputs for the item "Financial assets – FVOCI" (equity instruments) categorised within Level 3 are presented below:

| EUR '000 | Change in fair value |
|---|---|
| 10% increase in adjusted equity | 341 |
| 10% decrease in adjusted equity | -341 |
| 50 bp increase in WACC | -4 |
| 50 bp decrease WACC | 5 |

Sensitivity measurement assumptions applied in 2017:

In the annual financial statements for 2017, differing sensitivities were still applied for each risk type, as described below. The following parameters were taken into account in the sensitivity analysis:

- CDS spreads used to determine the CVA/DVA when measuring derivatives without collateral agreements
- Credit spreads used to value illiquid securities in the portfolio, which are measured at amortised cost
- Upward valuation adjustments to reflect credit risk and liquidity costs when measuring loans contained in the fair value portfolio

On the basis of this framework, a range of 10 bp for changes in the aforementioned parameters was used in the sensitivity analysis and is presented in the table below.

| EUR '000 | 31 Dec. 2018 Positive changes in fair value | 31 Dec. 2018 Negative changes in fair value | 31 Dec. 2017 Positive changes in fair value | 31 Dec. 2017 Negative changes in fair value |
|---|---|---|---|---|
| Derivatives | N/A | N/A | 1,670 | -1,670 |
| Securities | N/A | N/A | 1,207 | -1,207 |
| Loans measured using the FVO | N/A | N/A | 40 | -40 |
| **Total** | **N/A** | **N/A** | **2,917** | **-2,917** |

## 8.1.2 FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE

| EUR '000 | 31 Dec. 2018 Fair value | 31 Dec. 2018 Level 1 | 31 Dec. 2018 Level 2 | 31 Dec. 2018 Level 3 | 31 Dec. 2018 Carrying amount | 31 Dec. 2017 Fair value | 31 Dec. 2017 Carrying amount |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances at central banks | 417,130 | 417,130 | – | – | 417,130 | 456,197 | 456,197 |
| Financial assets – AC | 11,844,014 | 596,049 | 698,367 | 10,549,599 | 11,640,675 | N/A | N/A |
| Loans and advances to banks | N/A | N/A | N/A | N/A | N/A | 859,056 | 860,821 |
| Loans and advances to customers | N/A | N/A | N/A | N/A | N/A | 10,300,676 | 10,230,232 |
| Investments accounted for using the equity method | 23,148 | – | – | 23,148 | 23,148 | 24,225 | 24,225 |
| Investment property | 47,878 | – | – | 47,878 | 39,608 | 47,805 | 41,382 |
| Other assets | 31,013 | 2,467 | – | 28,547 | 31,013 | 239,675 | 239,114 |
| **Total assets** | **12,363,184** | **1,015,645** | **698,367** | **10,649,171** | **12,151,575** | **11,879,829** | **11,810,589** |
| **Equity and liabilities** | | | | | | | |
| Financial liabilities – AC | 12,189,911 | 4,123,770 | 7,392,654 | 673,486 | 12,106,624 | N/A | N/A |
| Deposits from banks | N/A | N/A | N/A | N/A | N/A | 978,773 | 974,918 |
| Deposits from customers | N/A | N/A | N/A | N/A | N/A | 4,050,281 | 4,049,846 |
| Debts evidenced by certificates | N/A | N/A | N/A | N/A | N/A | 7,375,122 | 7,283,886 |
| Other liabilities | 128,258 | 2,449 | – | 125,809 | 128,507 | 139,844 | 139,844 |
| **Total equity and liabilities** | **12,319,622** | **4,126,219** | **7,392,654** | **800,748** | **12,236,584** | **12,545,473** | **12,449,947** |

The fair value of land and buildings in accordance with IAS 16 was EUR 70,775thsd – well above the carrying amount of EUR 59,978thsd (31 Dec. 2017: fair value EUR 71,242thsd, carrying amount EUR 61,581thsd).

## 8.2 Derivatives

### 8.2.1 CARRYING AMOUNTS AND NOMINAL VALUES OF DERIVATIVES

At the end of the reporting period the HYPO NOE Group only held unlisted, over-the-counter (OTC) derivatives.

The Group has not netted off derivatives for accounting purposes, since the current framework agreements providing for transactions on a net basis (the ISDA master agreement, as well as Austrian and German master agreements for financial derivative transactions) do not fulfil the applicable criteria in this regard. Under these agreements, the right to offset all transactions to arrive at a single net amount would only be enforceable under certain conditions that may arise in the future (e.g. default or insolvency of the counterparty).

The following table provides an overview of the nominal values, carrying amounts and product types of derivatives carried at the end of the reporting period.

| | 31 Dec. 2018 | | | 31 Dec. 2017 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | | Nominal value | Carrying amount | | Nominal value |
| EUR '000 | Assets | Liabilities | | Assets | Liabilities | |
| **Financial assets – HFT** | **428,983** | **391,428** | **5,497,011** | **476,252** | **432,716** | **5,844,980** |
| Interest rate derivatives | 413,671 | 376,239 | 4,848,793 | 462,150 | 417,327 | 5,196,582 |
| Foreign exchange derivatives | 15,312 | 15,189 | 648,217 | 14,102 | 15,389 | 648,398 |
| **Fair value hedges** | **377,134** | **665,173** | **10,019,376** | **405,229** | **705,616** | **9,727,061** |
| Interest rate derivatives | 375,697 | 647,248 | 9,869,596 | 402,916 | 690,052 | 9,558,902 |
| Foreign exchange derivatives | 1,437 | 17,925 | 149,779 | 2,313 | 15,564 | 168,159 |

The following table provides an overview of netting for accounting purposes and netting agreements.

| | 31 Dec. 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets/ liabilities (gross) | Reported amounts offset (gross) (-) | Financial assets reported (net) | Effect of master netting agreements (-) | Collateral in the form of financial instruments (-) | Net amount |
| | | | | Not offset | | |
| EUR '000 | (a) | (b) | (c)=(a)+(b) | (d)(i) | (d)(ii) | (e)=(c)+(d) |
| **Assets** | | | | | | |
| Financial assets – HFT | 428,983 | – | 428,983 | -18,900 | -11,997 | 398,086 |
| Positive fair value of hedges (hedge accounting) | 377,134 | – | 377,134 | -253,718 | -55,704 | 67,712 |
| **Total assets** | **806,117** | **–** | **806,117** | **-272,618** | **-67,701** | **465,799** |
| **Equity and liabilities** | | | | | | |
| Financial liabilities – HFT | 391,428 | – | 391,428 | -18,900 | -318,257 | 54,271 |
| Financial liabilities – FVO | 3,500 | – | 3,500 | – | – | 3,500 |
| Negative fair value of hedges (hedge accounting) | 665,173 | – | 665,173 | -253,718 | -361,579 | 49,876 |
| **Total equity and liabilities** | **1,056,601** | **–** | **1,056,601** | **-272,618** | **-679,837** | **104,147** |

| EUR '000 | 31 Dec. 2017<br>Financial assets/ liabilities (gross)<br>(a) | Reported amounts offset (gross) (-)<br>(b) | Financial assets reported (net)<br>(c)=(a)+(b) | Not offset: Effect of master netting agreements (-)<br>(d)(i) | Not offset: Collateral in the form of financial instruments (-)<br>(d)(ii) | Net amount<br>(e)=(c)+(d) |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Financial instruments mandatorily measured at fair value (assets held for trading) | 476,252 | – | 476,252 | -20,895 | -8,542 | 446,815 |
| Positive fair value of hedges (hedge accounting) | 405,229 | – | 405,229 | -273,125 | -56,563 | 75,541 |
| **Total assets** | **881,481** | **–** | **881,481** | **-294,020** | **-65,105** | **522,356** |
| **Equity and liabilities** | | | | | | |
| Liabilities held for trading | 432,716 | – | 432,716 | -20,895 | -348,930 | 62,891 |
| Negative fair value of hedges | 705,616 | – | 705,616 | -273,125 | -385,271 | 47,221 |
| **Total equity and liabilities** | **1,138,332** | **–** | **1,138,332** | **-294,020** | **-734,201** | **110,111** |

## 8.2.2 UNDERLYING TRANSACTIONS IN FAIR VALUE HEDGES

As described in Note 3.6 Hedge accounting, the HYPO NOE Group enters into hedging transactions in the shape of fair value hedges in order to exclude market price risk in underlying transactions.

The following table shows the carrying amounts and the cumulative basis adjustments they contain for underlyings included in hedge accounting at the end of the reporting period. Adjustments relate exclusively to hedges at the end of the reporting period. The amounts do not contain any basis adjustments that have not been amortised for discontinued underlying transactions.

| EUR '000 | 31 Dec. 2018<br>Carrying amount Underlyings | Basis adjustments included in carrying amount of underlyings |
|---|---|---|
| **Assets** | | |
| **Financial assets – FVOCI** | **755,631** | **66,669** |
| Bonds | 755,631 | 66,669 |
| **Financial assets – AC** | **3,069,343** | **528,555** |
| Loans | 2,711,978 | 501,947 |
| Bonds | 357,365 | 26,608 |
| **Equity and liabilities** | | |
| **Financial liabilities – AC** | **7,146,963** | **284,825** |
| Demand and time deposits | 99,745 | 2,939 |
| Debts evidenced by certificates | 7,047,218 | 281,886 |

### 8.2.3 MATURITY PROFILE OF HEDGES

The nominal values of hedges qualifying for hedge accounting are broken down by residual maturity as follows.

| EUR '000 | 31 Dec. 2018 Nominal value Up to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Financial assets – FVOCI** | **82,050** | **56,000** | **298,450** | **217,000** | **653,500** |
| Bonds | 82,050 | 56,000 | 298,450 | 217,000 | 653,500 |
| **Financial assets – AC** | **20,000** | **81,797** | **424,406** | **2,080,089** | **2,606,292** |
| Loans | 20,000 | 72,797 | 305,335 | 1,881,883 | 2,280,015 |
| Bonds | – | 9,000 | 119,071 | 198,206 | 326,277 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Financial liabilities – AC** | **34,631** | **784,554** | **3,698,527** | **2,241,873** | **6,759,585** |
| Demand and time deposits | – | 20,000 | 34,000 | 42,000 | 96,000 |
| Debts evidenced by certificates | 34,631 | 764,554 | 3,664,527 | 2,199,873 | 6,663,585 |
| **Total** | **136,681** | **922,351** | **4,421,383** | **4,538,962** | **10,019,377** |

### 8.2.4 EFFECTS OF HEDGE ACCOUNTING ON EQUITY

As described in Note 3.6 Hedge accounting, hedges presented in the HYPO NOE Group's annual financial statements are exclusively fair value hedges. For a portion of the cross-currency interest rate swaps included in hedge accounting, the option was exercised to recognise the FX basis spread as the cost of hedging and as a revaluation surplus in equity.

On this basis, amortisation of the initial FX basis spread amounting to EUR 338thsd and a decrease of EUR 440thsd in the spread was recognised in the revaluation surplus. This resulted in a net reduction in the revaluation surplus of EUR 102thsd.

## 8.3 Lease disclosures

### FINANCE LEASE DISCLOSURES (WITH THE GROUP AS LESSOR)

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Gross investment** | **2,760,581** | **2,481,475** |
| Minimum lease payments | 2,534,457 | 2,282,231 |
| Up to 1 year | 179,248 | 155,634 |
| From 1 to 5 years | 627,135 | 533,523 |
| Over 5 years | 1,728,074 | 1,593,074 |
| Unguaranteed residual values | 226,124 | 199,244 |
| **Unearned finance income** | **-427,706** | **-359,933** |
| Up to 1 year | -43,029 | -36,415 |
| From 1 to 5 years | -150,461 | -127,370 |
| Over 5 years | -234,216 | -196,148 |
| **Net investment** | **2,332,875** | **2,121,542** |

Net investment in finance leases is included under "Financial assets – AC". Narrative information in this regard can be found in Note 3.7 Lease accounting.

The Lower Austrian state government and Lower Austrian local authorities account for approximately 98% (2017: approx. 98%) of the finance leases written. The rest of the lessees are business customers, other public agencies and associations. 96% (2017: approx. 96%) of the lease assets in question are property, but a small amount of equipment is also involved – often directly related to the real estate financed by the leases. Most of the leased properties are hospitals, care homes, office buildings and schools, while the equipment largely relates to furnishings treated as separate assets, and to medical equipment.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Minimum lease payments | 2,534,457 | 2,282,231 |
| Unearned finance income | -427,706 | -359,933 |
| **Net present value of minimum lease payments** | **2,106,751** | **1,922,298** |
| Unguaranteed residual values | 226,124 | 199,244 |
| **Net investment** | **2,332,875** | **2,121,542** |

## OPERATING LEASE DISCLOSURES (WITH THE GROUP AS LESSOR)

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Future minimum lease payments on non-cancellable leases** | **39,609** | **41,561** |
| Up to 1 year | 2,416 | 2,394 |
| From 1 to 5 years | 10,328 | 9,631 |
| Over 5 years | 26,865 | 29,536 |

The minimum lease payments stated for operating leases are recognised under "Investment property" in the statement of financial position.

## OPERATING LEASE DISCLOSURES (WITH THE GROUP AS LESSEE)

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Future minimum lease payments on non-cancellable leases** | **10,711** | **5,701** |
| Up to 1 year | 2,105 | 1,144 |
| From 1 to 5 years | 8,606 | 4,557 |
| Over 5 years | – | – |

The majority of operating leases where the Group is the lessee relate to property.

## 8.4 Analysis of assets and liabilities by IAS 39 measurement category

Application of IFRS 9 resulted in the recognition of new measurement categories for financial assets and liabilities in the statement of financial position. The following table presents the disclosures required under paragraph 8 IFRS 7 as at 31 December 2017.

| 31 Dec. 2017, EUR '000 | Loans and receivables (LAR) | Liabilities measured at amortised cost (LAC) | Assets held for trading (HFT) | Designated as at fair value through profit or loss (FVTPL) | Available-for-sale (AFS) assets | Fair value hedges | Financial assets/ liabilities at cost (amortised cost) | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | – | – | – | – | – | – | 456,197 | 456,197 |
| Loans and advances to banks | 860,821 | – | – | – | – | – | – | 860,821 |
| Loans and advances to customers | 10,230,232 | – | – | – | – | – | – | 10,230,232 |
| Risk provisions | -75,270 | – | – | – | – | – | – | -75,270 |
| Assets held for trading | – | – | 476,252 | – | – | – | – | 476,252 |
| Positive fair value of hedges | – | – | – | – | – | 405,229 | – | 405,229 |
| Available-for-sale financial assets | – | – | – | – | 1,594,189 | – | – | 1,594,189 |
| Financial assets designated as at fair value through profit or loss | – | – | – | 19,474 | – | – | – | 19,474 |
| Investments accounted for using the equity method | – | – | – | – | – | – | 24,225 | 24,225 |
| Investment property | – | – | – | – | – | – | 41,382 | 41,382 |
| Other financial assets[1] | 217,809 | – | – | – | – | – | – | 217,809 |
| **Total financial assets** | **11,233,592** | **–** | **476,252** | **19,474** | **1,594,189** | **405,229** | **521,804** | **14,250,540** |
| Deposits from banks | – | 974,918 | – | – | – | – | – | 974,918 |
| Deposits from customers | – | 4,049,846 | – | – | – | – | – | 4,049,846 |
| Debts evidenced by certificates | – | 7,283,886 | – | – | – | – | – | 7,283,886 |
| Liabilities held for trading | – | – | 432,716 | – | – | – | – | 432,716 |
| Negative fair value of hedges | – | – | – | – | – | 705,616 | – | 705,616 |
| Subordinated capital | – | 1,453 | – | – | – | – | – | 1,453 |
| Other financial liabilities[1] | – | 115,353 | – | – | – | – | – | 115,353 |
| **Total financial liabilities** | **–** | **12,425,456** | **432,716** | **–** | **–** | **705,616** | **–** | **13,563,788** |

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

## 8.5 Disclosures on related-party relationships

| 31 Dec. 2018, EUR '000 | Parent companies | Group companies | Associates accounted for using the equity method | Joint ventures in which the Company is a joint venturer, accounted for using the equity method | Other related parties | Key management* |
|---|---|---|---|---|---|---|
| Financial assets – AC | 2,881,409 | 116,185 | 375,915 | 495 | 6,301 | 2,509 |
| Lease receivables | 2,296,075 | – | – | – | – | – |
| Financial assets – FVOCI | – | – | 18,842 | 4,306 | – | – |
| Positive fair value of hedges | 90,131 | – | – | – | – | – |
| Other assets | 1,942 | 112 | – | – | 662 | – |
| Financial liabilities – AC | 64,125 | 556 | 68,469 | 1,989 | 26,054 | 3,134 |
| Other liabilities | 25 | – | – | – | – | – |
| Interest income | 26,820 | 505 | 9,521 | 2 | 43 | 4 |
| Interest on debt capital | -35 | – | -76 | -1 | -13 | -4 |
| Dividend income | – | – | 482 | 167 | 139 | - |
| Fee and commission income | – | 2 | 134 | – | 10 | 1 |
| Fee and commission expense | – | – | -4 | – | – | – |
| Other income and expenses | -1,091 | 73 | 626 | 275 | 66 | – |
| Guarantees provided by the Group | 161,095 | – | – | – | – | – |
| Other obligations incl. unused credit lines | – | 39,594 | 13,583 | 7,225 | 8,213 | 121 |
| Guarantees received by the Group | 2,664,955 | – | – | – | – | – |
| Credit provisions | – | – | 265 | – | – | 35 |

| 31 Dec. 2017, EUR '000 | Parent companies | Group companies | Associates accounted for using the equity method | Joint ventures in which the Company is a joint venturer, accounted for using the equity method | Other related parties | Key management* |
|---|---|---|---|---|---|---|
| Loans and advances to customers | 2,794,713 | 114,909 | 352,925 | 516 | 7,770 | 2,277 |
| Lease receivables | 2,060,485 | – | – | – | – | – |
| Equity instruments (shareholdings, etc.) | – | 106 | 25,299 | 940 | 485 | – |
| Positive fair value of derivatives | 90,301 | – | – | – | – | – |
| Other assets | 102,378 | – | – | 3 | – | – |
| Deposits from banks | – | – | – | 1,563 | – | – |
| Deposits from customers | 41,839 | 362 | 42,243 | 78 | 9,588 | 2,624 |
| Other liabilities | – | – | 56 | 242 | – | – |
| Interest income | 19,895 | 470 | 11,928 | 1 | 35 | 6 |
| Interest on debt capital | – | – | -18 | -1 | -12 | -8 |
| Dividend income | – | – | 566 | 297 | – | – |
| Fee and commission income | – | 2 | 202 | – | 7 | 1 |
| Fee and commission expense | – | – | -4 | – | – | – |
| Other income and expenses | 1,133 | 82 | 609 | 21 | 49 | – |
| Allocations to/reversals of provisions for non-performing assets | N/A | N/A | N/A | N/A | N/A | N/A |
| Guarantees provided by the Group | – | – | – | – | – | – |
| Other obligations incl. unused credit lines | 434,575 | 40,900 | 14,605 | 7,284 | 9,319 | 83 |
| Guarantees received by the Group | 2,610,241 | – | – | – | – | – |
| Credit provisions, and individual and collective impairment allowances | – | 1 | 94 | – | 1 | 12 |

*Includes loans, advances and guarantees as at 31 December 2018 of EUR 37thsd extended to the Management Board (31 Dec. 2017: EUR 37thsd) and of EUR 92thsd extended to the Supervisory Board (31 Dec. 2017: EUR 68thsd), all concluded on market terms.

During the period under review, no amounts were recognised in respect of bad or doubtful debts due from related parties (2017: EUR 9thsd).

The transfer prices between the HYPO NOE Group and related parties were arm's length prices. 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 indirect interest of 70.49% in HYPO NOE Landesbank für Niederösterreich und Wien AG via NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% via NÖ BET GmbH. Therefore, the Lower Austrian state government falls under "Parent companies" in the table above. The state government's guarantees of loans and advances extended to third parties by HYPO NOE Landesbank für Niederösterreich und Wien AG (see table above) were all concluded on market terms. Use is made of the exemption from disclosure requirements under paragraphs 25 and 18 IAS 24.

### RELATIONSHIPS WITH SUBSIDIARIES

The former chairman of the Management Board, Peter Harold, was deputy chairman of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten. His successor is Management Board member Wolfgang Viehauser. A member of the Supervisory Board is a member of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten. Management Board member Wolfgang Viehauser is a member of the supervisory board of VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H.

### RELATIONSHIPS WITH ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

**Niederösterreichische Vorsorgekasse AG**

The former chairman of the Management Board, Peter Harold, is chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

A member of the Supervisory Board was deputy chairman of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten until 30 November 2018. A member of key management is a member of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten. A member of key management is a member of the management board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

**EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft and its subsidiaries**

A member of key management is chairman of the management board of EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, St. Pölten; another member of key management personnel is a member of the company's supervisory board.

Management Board member Wolfgang Viehauser is chairman of the supervisory boards of EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, St. Pölten, as well as Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H (all domiciled in Mödling).

A member of key management is a member of the supervisory boards of Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H, all domiciled in St. Pölten.

### NOE IMMOBILIEN DEVELOPMENT GMBH

The former chairman of the Management Board, Peter Harold. was a member of the supervisory board of NOE Immobilien Development GmbH, St. Pölten, until 3 September 2018. Since then, Management Board member Udo Birkner has been deputy chairman of the supervisory board of NOE Immobilien Development GmbH, St. Pölten.
A member of key management was deputy chairman of the supervisory board of NOE Immobilien Development GmbH, St. Pölten, until 3 September 2018, and remains a member of that board.

### 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.

Key management in the HYPO NOE Group comprises "identified staff". This encompasses those individuals who are directly or indirectly responsible for planning, managing and supervising the Group's activities. These individuals include the Management and Supervisory Board members. The list of key management including their names, functions and the Group companies of which they are employees is updated at the end of the reporting period.

## 8.6 Risk management

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

All significant business activities in pursuit of the Group's strategic goals are planned to reflect strategic risk considerations, with very close attention paid to risk-bearing capacity. The Bank attaches particular importance to evaluating risks in terms of the relationship between risk and opportunity. Risks are not ends in themselves; they are assumed in the interests of value creation and hence improved risk-bearing capacity, as well as adequate returns on risk capital. The refinement of instruments and processes designed to maintain an appropriate balance of risks and rewards is integral to the Group's long-term strategy.

The Group's risk-bearing capacity is safeguarded by an appropriate relationship between risks and coverage capital. To this end, eligible risk coverage capital is very carefully defined, and the confidence level for risk quantification (i.e. the probability of loss) is set at a conservative level.

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

### RISK MANAGEMENT SYSTEM

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

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

The disclosures required by Part 8 of the CRR are made on a consolidated basis for the HYPO NOE Group, and are published in a separate document posted on the corporate website (www.hyponoe.at).

The rules and procedures for introducing new areas of business or products, and for entering new markets, require detailed prior analysis of the relevant business risks. Without exception, transactions entailing risks are only permitted if the latter are explicitly regulated and authorised in the Group's risk documentation. The Group in principle restricts its exposures to areas where it has the necessary expertise to assess and manage the specific risks involved. Where the risk situation is unclear, or where there are methodological uncertainties, the principle of prudence prevails.

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. In spite of the risk management methods and control processes in use, the Group may be exposed to unknown and unexpected risks. The risk management techniques and strategies cannot be expected to be wholly effective in every market environment and against all types of risks.

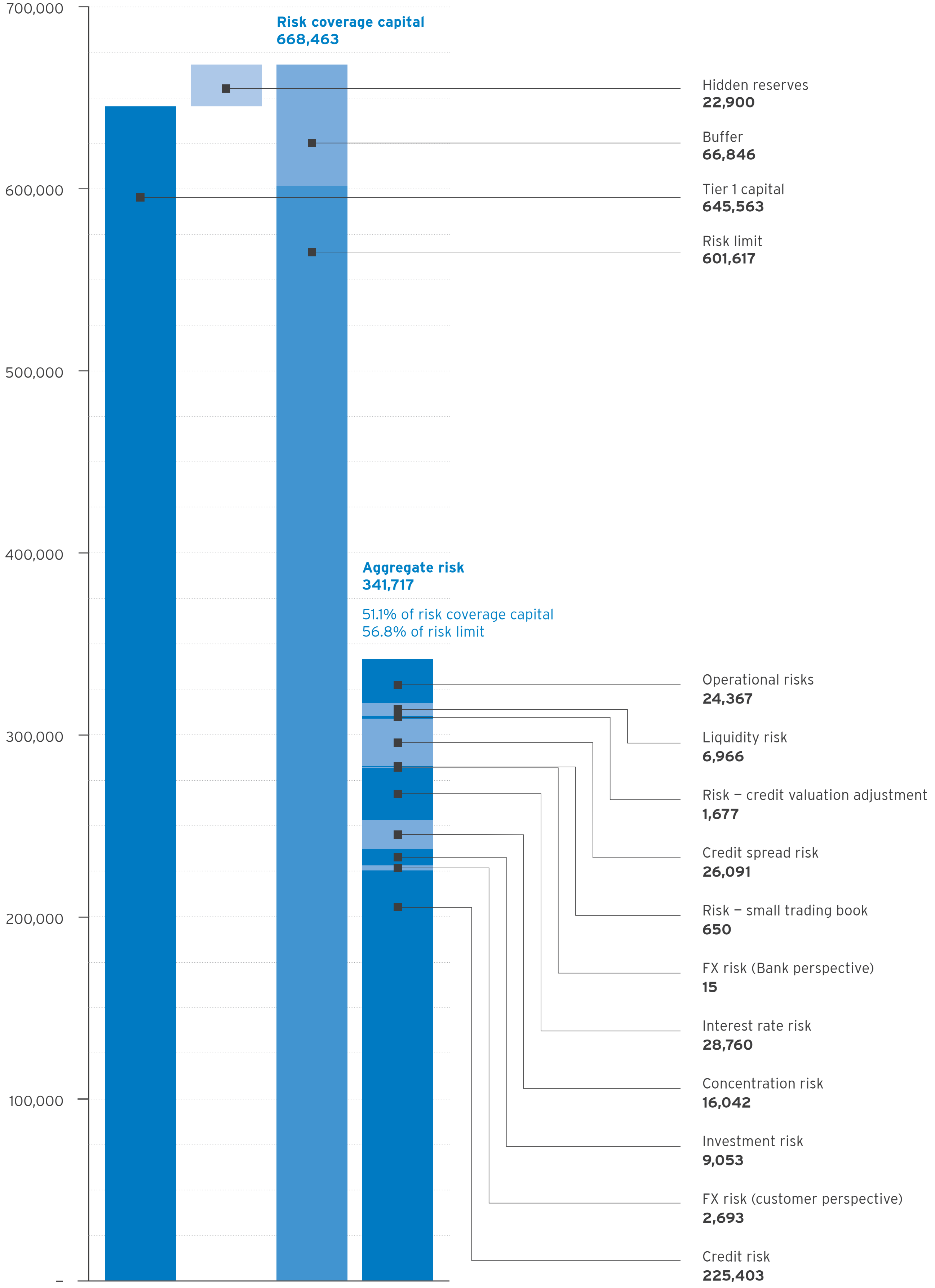
### AGGREGATE RISK MANAGEMENT AND RISK-BEARING CAPACITY (ICAAP)

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

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. The minimum capital requirement is calculated using the standardised approach (Pillar 1, Basel III regulations). All material risks (interest rate risk on the banking book, liquidity risk, credit spread risk, credit risk including 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. The economic capital management control loop 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. The going concern management control loop 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 the economic control loop as at 31 December 2018 are shown below (in EUR thsd).


700,000
600,000
500,000
400,000
300,000
200,000
100,000
–
Risk coverage capital
668,463
Aggregate risk
341,717
51.1% of risk coverage capital
56.8% of risk limit
Hidden reserves
22,900
Buffer
66,846
Tier 1 capital
645,563
Risk limit
601,617
Operational risks
24,367
Liquidity risk
6,966
Risk – credit valuation adjustment
1,677
Credit spread risk
26,091
Risk – small trading book
650
FX risk (Bank perspective)
15
Interest rate risk
28,760
Concentration risk
16,042
Investment risk
9,053
FX risk (customer perspective)
2,693
Credit risk
225,403

As at 31 December 2018 the Group utilised 56.8% of the aggregate risk limit (including an adequate buffer), which was slightly lower than at 31 December 2017 (62.8%).

**Capital management of internal risk coverage capital**
Aggregate banking risk management for the consolidated Group for the purposes of the CRR uses IFRS accounting principles in the calculation of own funds. Satisfying the capital requirements is also an essential factor in the process of ensuring the bank's survival as a going concern. The figures from the Common Reporting Framework (COREP) for own funds are thus taken over as potential economic risk coverage capital. Hidden economic reserves and potential liabilities from securities and investments are also included in the risk coverage aggregates. Changes in the total are the results of the volatility of hidden reserves and potential liabilities, and of 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, principally from securities and investments

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

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.

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

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

The changes in recovery indicators are an essential aspect of reports by the relevant management bodies.

The annual review of the Group's recovery plan in accordance with the Federal Act on the Recovery and Resolution of Banks, with a focus on assessing the selected indicators including the defined threshold values, as well as updating the overall restructuring capacity and the defined scenarios, was completed on schedule.

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

**Bank-wide stress test**
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. protectionism and trade wars, possible effects of new regulations, or a downgrade in the Republic of Austria's credit rating). The impact of the scenarios on credit, investment, interest rate and liquidity risk at Group level, as well as on the recognition of additional risk provisions pursuant to IFRS 9 and expected defaults, are simulated in terms of both regulatory and economic risk-bearing capacity. The results of the stress test and the possible countermeasures identified are discussed by the Management Board and presented to the Risk Committee.

**Basel III/IV**
While ongoing reporting improvements to meet revised reporting standards have now become routine, preparations for implementing future measures (currently known as Basel IV) and analysing their effects are also under way. Analysis shows that the revisions made by the Basel Committee on Banking Supervision (BCBS) to rules for all

significant types of risk, and the amendments to the Capital Requirements Regulation (CRR II) and Capital Requirements Directive (CRD V) outlined in consultation papers published by the European Commission, present a major challenge for banks. The objective here is not merely to achieve regulatory compliance, but also to evaluate the effects on all areas of the Bank, so as to be able to initiate any necessary corrective measures in good time.

**Supervisory Review and Evaluation Process (SREP)**
The collection of qualitative and quantitative data based on a questionnaire was concluded in the first half of 2018, and the Bank sent the completed SREP questionnaire to the OeNB on time.

Under this regulatory process, which covers the entire banking sector, the HYPO NOE Group must maintain an SREP ratio which increases the minimum capital requirements under Pillar I and Pillar II. The Bank received the latest notice in April 2018. Its capitalisation is more than sufficient to meet the new requirements.

**Upgrading risk management systems**
In 2019 the HYPO NOE Group will again upgrade its infrastructure, processes and methodologies, in order to meet current and future regulatory requirements (including Basel IV, IFRS 9, MREL, NSFR, funding plans, the leverage ratio and rating models), and to ensure that internal risk control systems remain compatible with the Group's permitted risk appetite and its business objectives.

## CREDIT RISK

Credit risk is the risk of a change in creditworthiness. Monitoring it means watching the risk of a worsening in creditworthiness and, in the worst case, the default of a counterparty or guarantor. Credit risk is broken down into various types, depending on the product groups involved:
- Classic credit risk for loans
- Replacement risk for derivatives
- Issuer risk for securities

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 assuming and managing 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 models and processes for measuring credit risks, and regularly reviewing their suitability
- Quantifying credit risks on the basis of the processes established
- Identifying and complying with statutory regulations and environmental conditions
- Management's determination of risk appetite/tolerance
- Limiting and monitoring credit risks on the basis of the risk tolerance arrived at
- Appropriate reporting
- Determining processes and procedures for risk-related allocation of credit costs

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

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

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

For private customers, the Group currently employs an applications rating procedure together with behaviour rating for ongoing evaluation. Business customers are assessed using different rating instruments for start-ups, businesses preparing accounts on a cash basis and those using accrual accounting. In the case of companies using accrual accounting, the appropriate rating module is selected according to operating revenue and the role of risk in transactions with retail customers. There are also separate processes for local authorities and for banks. Credit ratings for specialised lending are carried out using the supervisory slotting approach in accordance with Art. 153 CRR, based on income-producing real estate (IPRE) and project finance ratings. In connection with specialised lending, default risk and potential losses are particularly dependent on the financial success of the financed project. Under the supervisory slotting approach, risk weightings are applied to receivables based on specific factors. A rating tool is used to evaluate the creditworthiness of 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, customer foreign exchange risks and investment risks. The number of unrated customers is negligible, and their accounts are constantly monitored.

**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 basic 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 unit is responsible for the full range of activities related to the assessment, monitoring and management of all risks associated with on-balance-sheet and off-balance-sheet receivables at the individual customer level.

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

In addition, the Operational Credit Risk Management unit monitors early warning indicators (principally generated by credit services teams) in order to identify potential problem customers as early as possible, so as to be able to initiate countermeasures in good time. Appearance of certain early warning indicators (such as political instability or negative stock exchange announcements) results in loans being designated as watch loans; if indicators deteriorate further, accounts are subject to intensified customer service and monitoring. All customers on watch-loan status are assessed quarterly by the Problem Loans Committee, and decisions are taken with regard to strategy. As at 31 December 2018 the volume of designated watch loans stood at EUR 74.5m (31 Dec. 2017: EUR 76.6m).

Primary responsibility for loans subject to intensified service lies with the front office unit concerned and Operational Credit Risk Management. In certain cases, the Intensive Care Management unit provides various forms of support, including action plans, as well as taking part in meetings with the customer. The objective of intensified service is to eliminate uncertainty regarding the risk situation, and to reach a decision on whether the loan can be returned to normal service or needs to be transferred to Intensive Care Management due to elevated risk.

If the increased risk factors are considered lasting, so that there is an acute threat to the continued existence of the debtor, or if the loan threatens to significantly affect the

Bank's risk position due to its size, Intensive Care Management is informed immediately by the responsible front office unit.

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

**Country analysis**
Following a period of economic recovery, growth is now likely to have peaked in many countries. The period of higher growth and the ECB's asset purchase programme, which has now been phased out, led to noticeable improvements in economic fundamentals, including lower budget deficits, falling debt ratios, historically low public interest burdens and higher employment. Local banking sectors are benefiting from the resulting uptick in profitability and improvements in capitalisation. Demand for loans has increased markedly. However, risks such as political upheaval in Italy, Brexit, the lack of a political solution to the migration crisis, and the growth of populist movements — which could potentially form a group in the European Parliament after the European elections — are increasingly taking centre stage. Heightened geopolitical tensions and trade restrictions, as well as adjustments to the ECB's interest rate and monetary policies are monitored accordingly, especially with regard to potential implications for the HYPO NOE Group's overall portfolio. Property price trends in individual countries are continually monitored for possible overheating, with high asset balances and sustained high demand taken into account as mitigating factors when assessing risk.

The HYPO NOE Group's exposures in countries on Europe's outer periphery (almost exclusively government bonds) have continued to fall. Fundamentals in these countries have also brightened significantly. In spite of some improvements (increased capitalisation, in part thanks to government support), the Italian banking sector is still under pressure, and is being additionally weighed down by market reactions to political developments.

**Risk provisions**
The methodology for determining impairment losses and gains on financial assets in accordance with IFRS 9 (expected credit losses, ECL) is described in Note 3.3.2 Impairment losses/gains on financial assets — IFRS 9.

**Credit risk monitoring**
For individual customers, risk monitoring is the responsibility of Operational Credit Risk Management, which checks credit ratings, monitors blacklists drawn up by credit services and processes loan applications that potentially entail significant risks. In addition, relationship managers are required to prepare comprehensive reviews of the current situation for each customer when necessary, and at least once a year, irrespective of the amount of the exposure and the credit rating. The reviews are submitted to the managers with the requisite decision-making authority. Customers who give cause for concern (where significant risk is involved) are monitored by the Operational Credit Risk Management unit. Where there is a significant deterioration in the risk situation, the exposures are transferred to the specialists in Intensive Care Management, who are not involved in front office approval.

Where necessary, assessment is carried out immediately to determine whether risk provisions for the exposure in question will in future be calculated in Stage 3 using the fully automated or expected cash flow (ECF) method (see description in Note 3.3.2 Impairment losses/gains on financial assets — IFRS 9), due to attainment of the significance threshold. If risk provisions for the Stage 3 loan in question are calculated using the ECF method, a decision must be made as to whether an ECF analysis is required immediately (i.e. outside the quarterly process cycle). If not, the risk provisions for the exposure are calculated prior to the next regular ECF process cycle, using the fully automated method, or at the latest in the next quarterly ECF process cycle, using the ECF method. All customers with 5A ratings are immediately transferred to Intensive Care Management.

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 foreign banks with good external ratings.

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

**Risk concentration**
Risk concentrations in the HYPO NOE Group are identified and monitored using country and industry limits, and by means of regulatory capital for name concentrations, as

well as securities, derivatives and money market activities. There is also a limit for customers associated with the Group. The concentration in the Public Sector segment reflects the HYPO NOE Group's strategic focus on Austria, and Lower Austria in particular. The public finance portfolio is essentially granular and mainly comprises loans to sovereigns, state governments and local authorities, with finance for social infrastructure and for – largely collateralised – subsidised home loans playing the most prominent role. The following table presents the five largest name concentrations (excluding balances at the OeNB), in EUR thsds, which exclusively comprise finance for the public sector.

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| 1 | 2,183,177 | 2,272,645 |
| 2 | 784,558 | 862,292 |
| 3 | 451,801 | 712,606 |
| 4 | 282,852 | 328,603 |
| 5 | 243,632 | 216,655 |

The table below shows the five largest risk volumes vis-a-vis sovereigns (in EUR thsd).

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Austria | 11,789,417 | 11,045,220 |
| Germany | 340,825 | 391,314 |
| Poland | 185,141 | 196,764 |
| France | 183,327 | 152,476 |
| Czech Republic | 133,714 | 148,268 |

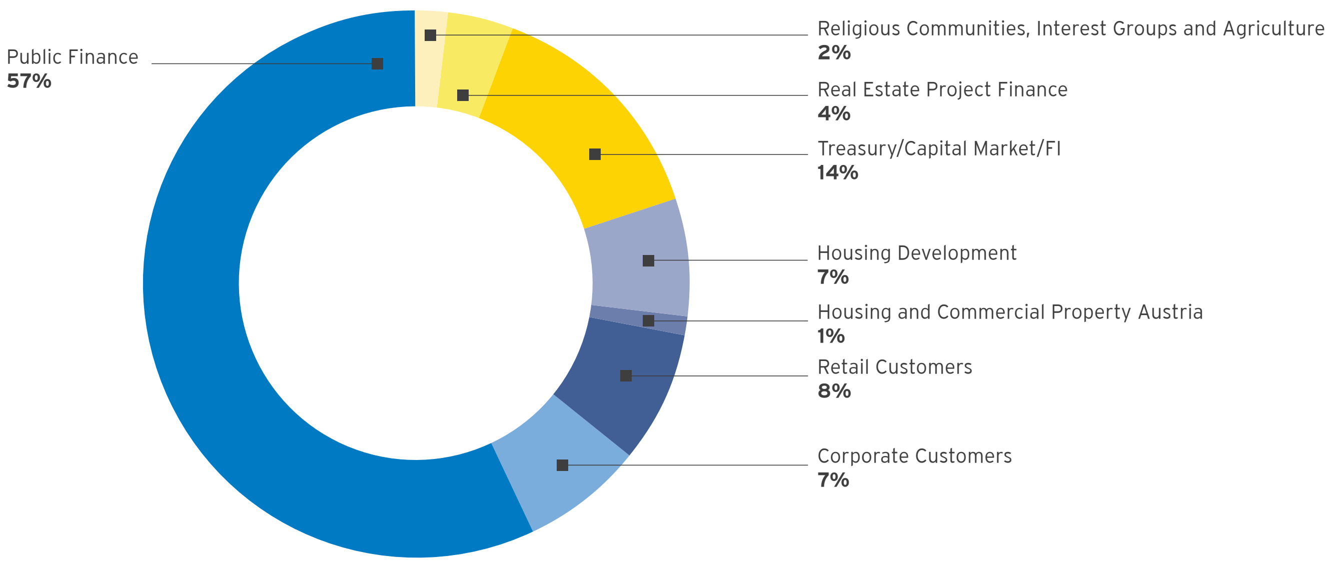
**Credit risk management**

The following tables correspond to the internal risk evaluation as regularly reported to the Management Board and used for internal aggregate banking risk management (Pillar 2). Internal risk management involves assessing exposures affected by credit risk from an economic perspective, which may not be fully consistent with the IFRS statement of financial position. Exposure at default (EAD) is calculated on the basis of the following premises:

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

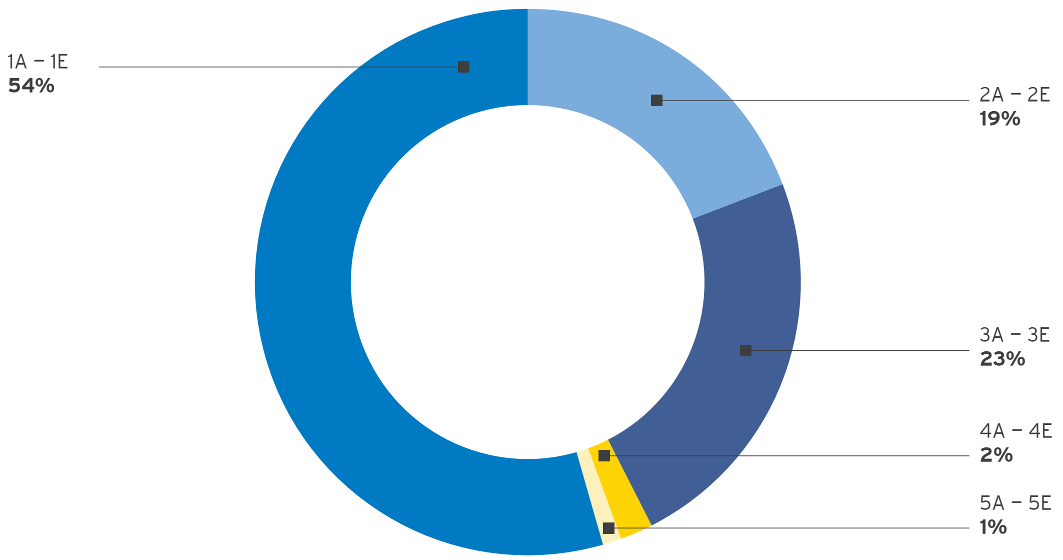
The credit risk management system is based on the following control units:

| Control unit | Exposure, EUR '000 31 Dec. 2018 | Exposure, EUR '000 31 Dec. 2017 |
|---|---|---|
| Public Finance | 7,853,817 | 7,333,808 |
| Religious Communities, Interest Groups and Agriculture | 208,367 | 166,593 |
| Real Estate Project Finance | 611,415 | 853,247 |
| Treasury/Capital Market/FI | 1,855,767 | 1,937,222 |
| Housing Development | 1,007,935 | 799,285 |
| Housing and Commercial Property Austria | 134,226 | 102,113 |
| Retail Customers | 1,050,822 | 933,393 |
| Corporate Customers | 964,687 | 997,658 |
| **Total** | **13,687,036** | **13,123,319** |



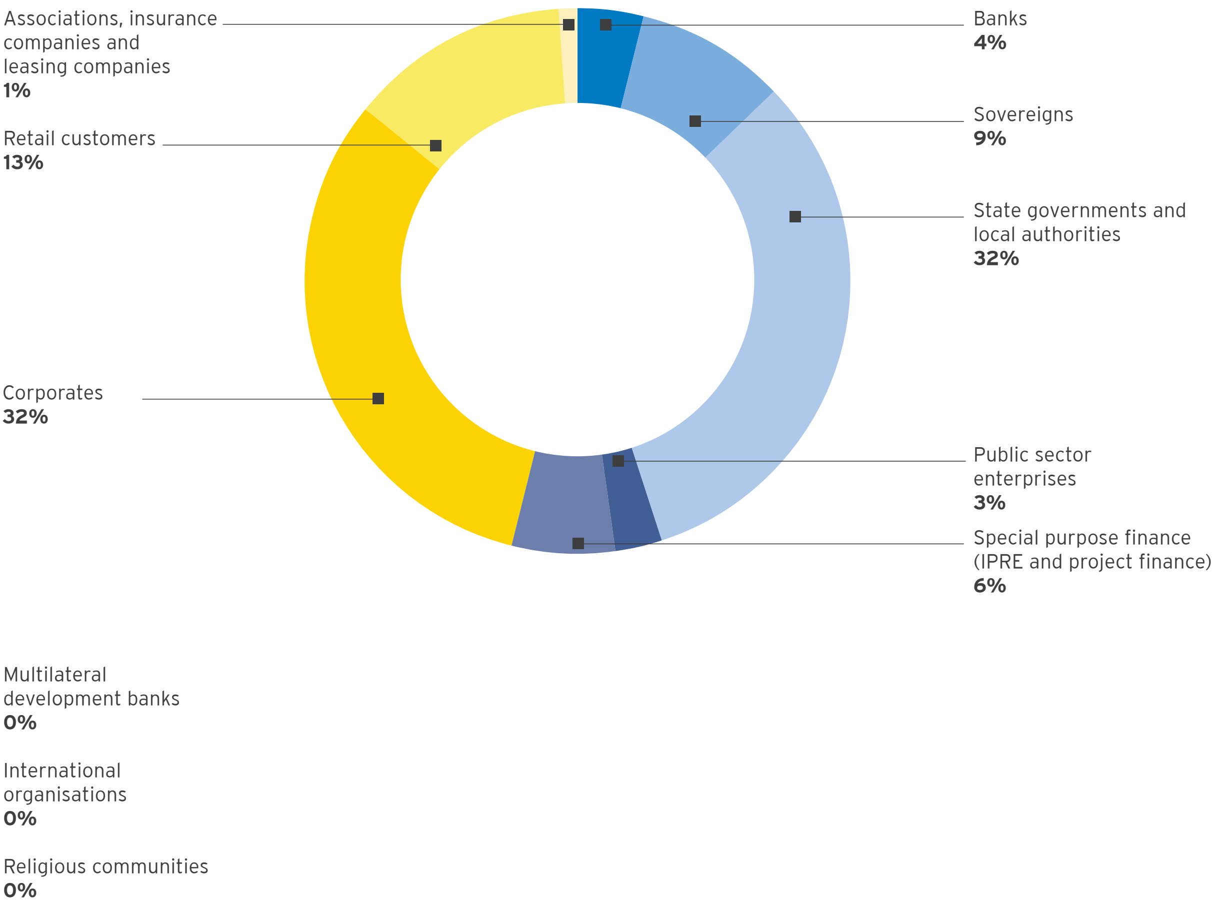
Credit risk management is based on credit ratings, as follows:

| | Exposure, EUR '000 | |
|---|---|---|
| **Rating category** | **31 Dec. 2018** | **31 Dec. 2017** |
| 1A – 1E | 7,415,634 | 6,688,997 |
| 2A – 2E | 2,639,229 | 2,521,666 |
| 3A – 3E | 3,194,793 | 2,331,760 |
| 4A – 4E | 272,463 | 1,354,675 |
| 5A – 5E | 164,917 | 226,222 |
| **Total** | **13,687,036** | **13,123,319** |



Credit risk management on an economic basis is also applied via Basel segments, as shown below.

| Segment | Exposure, EUR '000<br>31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Banks | 564,895 | 574,307 |
| Sovereigns | 1,197,086 | 1,224,280 |
| State governments and local authorities | 4,321,686 | 1,537,505 |
| Multilateral development banks | 19,331 | 19,473 |
| International organisations | 40,750 | 46,207 |
| Public sector enterprises | 440,243 | 478,759 |
| Special purpose finance (IPRE and project finance) | 786,128 | 732,207 |
| Corporates | 4,370,853 | 4,487,608 |
| Retail customers | 1,717,683 | 1,689,290 |
| Religious communities | 49,205 | 34,943 |
| Associations, insurance companies and leasing companies | 179,177 | 2,298,740 |
| **Total** | **13,687,036** | **13,123,319** |



**Credit risk mitigation**
Collaterals and the borrower's creditworthiness (expressed as a risk weighting or probability of default) are the decisive factors in assessing credit risk, and therefore also provide the basis for the regulatory capital required. Before credit risk mitigation measures can be applied, the minimum requirements specified in the Group collateral manual must be observed. These refer to the type of collateral as well as internal processes.

The measurement and classification of collateral are governed by strict organisational rules and procedures, which distinguish between the fair value of collateral recognised for regulatory purposes and its economic value. As a general rule, the relationship manager checks the legal status and the economic value of the collateral – with particular reference to the current 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 unit checks the information, assumptions and underlying parameters.

All permissible forms of collateral in the HYPO NOE Group are shown in the collateral list. The principal categories of collateral admissible for Basel III purposes that are relevant to the HYPO NOE Group are guarantees (largely in the public sector), mortgages and other pledges. A considerable proportion of the Group's total lending relates to the purchase of subsidised home loans from the Lower Austrian state government, which are fully secured by a guarantee from the State of Lower Austria. The credit risk on these exposures is therefore low.

### CURRENT CREDIT RISK SITUATION

**Receivables subject to customer CHF foreign exchange risk**
These receivables and their rating grades are as follows:

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Investment grade | 152,516 | 327,560 |
| Non-investment grade | 138,923 | 159,890 |
| Default | 13,728 | 13,911 |
| **Total** | **305,167** | **501,361** |

In the investment grade category, there is a significant concentration of lending to a company linked to the State of Lower Austria. The non-investment grade category consists predominantly of private housing finance. The volume of lending exposed to CHF foreign exchange risk was further reduced in 2018.

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

The HYPO NOE Group also finances real estate projects with excellent or good credit ratings, as well as infrastructure enterprises, corporate and retail customers and SMEs.

Ongoing development of credit risk management includes enhancing organisational processes for managing high-risk cases (watch list, continuous evaluation of provisions, forbearance), tighter monitoring, and active portfolio management (increasing portfolio granularity, risk transfer and risk concentration, and improving the structure and concentration of securities).

### MARKET RISK

**General**
Market risks are potential losses resulting from declines in the underlying value of exposures due to changes in market prices. Bank-specific market risks include:
- Interest rate risk in the banking book
- Credit spread risk
- Fund price risk
- Foreign exchange risk
- Options risk (volatility risk)
- Trading book risk
- Basis risk in hedge accounting
- CVA risk
- Concentration risk as part of market risk
- Commodity price risk
- Share price risk

The HYPO NOE Group's market risk management strategy sets out the guidelines for managing the various Bank-specific market risks.

The main market risks facing the HYPO NOE Group are interest rate risk in the banking book, and credit spread risk (in particular in the nostro portfolio) arising in part from ordinary banking activities such as fixed-interest lending and management of liquidity reserves. The HYPO NOE Group has 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 accounting, and of CVA risk 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 commodities risk or share price risk, and consequently no substantial risks may be incurred in these market risk categories. Exposures to investment funds were discontinued in 2018 and the Bank currently has no interest in entering into new transactions in this segment. Therefore, no risk capital is allocated to this risk category.

The overriding principle behind the Group's market risk management activities is guaranteeing adequate capital coverage of incurred market risks at all times, and ensuring that individual risk positions are transparent and are appropriately monitored and managed. Based on this, the Group has set the following overriding 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

In the light of 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. These principles are:

- 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
- Management's determination of risk appetite and tolerance for individual market risk categories
- 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 income fluctuations in a given period, and present value risk, which measures the loss in underlying value of a particular portfolio as a result of interest-rate-induced changes in present values.

As a priority, the HYPO NOE Group monitors and manages interest rate risks in respect of net interest income and in sub-portfolios relevant to IFRS earnings and equity, since these are primary indicators of performance in the accounts for a given period. The present value of the interest rate risk in 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 managed separately, using an equity book.

Interest rate risks on structured positions and fixed-interest positions in the retail business (e.g. loans, securities, issues) are — to the extent that is possible and efficient — fully hedged from the outset using fair value hedges that are recognised in hedge accounting. The effects of underlying transactions and corresponding hedging instruments are offset and reported in the statement of profit or loss, under measurement gains or losses. Small exposures are combined and hedged by means of layered hedges. Medium to long-term open positions taken by the Bank in the light of interest rate expectations must reflect the product-specific risk profile, and must be in authorised products and within the approved limits. If no appropriate limits have yet been set for a desired position, the Strategic Risk Management Department and the unit taking the risk jointly propose a limit and a monitoring process, which must be approved by the Management Board before the transaction is completed.

**Interest rate risk management**

Monitoring and quantification of interest rate risk is the responsibility of an independent back office department, Strategic Risk Management. 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 carried out 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 Treasury/Capital Market/Financial Institutions (FI) Department, while the ALM team handles management of long-term interest rate risk positions. Fixed and non-linear interest rate risks are by and large eliminated by hedging. Strategic long-term positions in the banking book that are sensitive to interest rates are discussed by the Asset-Liability Management Committee on the recommendation of ALM and — following approval by the Management Board — managed by the Treasury/Capital Market/FI Department. Equity is invested and reported in the form of a rolling fixed-income portfolio.

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

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

Interest rate risk is assessed using gap analysis and interest rate sensitivity. The worst-case change in the present value of the entire banking book is calculated on the basis of the six Basel Committee on Banking Supervision (BCBS) interest rate risk in the banking book (IRRBB) scenarios (confidence level of 99.9% for the liquidation approach and scaled up to 95% for the going concern approach). Parallel shifts and twists in the yield curve (on money and capital markets) are also modelled in the interest rate scenarios.

Risk measurement according to the OeNB interest rate risk statistics is carried out in compliance with regulatory requirements. Fixed interest rate gaps between the assets and liabilities sides of the banking book are calculated and then multiplied by a weighting factor. The OeNB sets a weighting factor for each maturity band, which is equivalent to twice the modified duration of a zero-coupon bond and is designed to show the effect of a 200 bp interest rate shift on present values. Risk is calculated separately for each of the main currencies, and the total risk per currency is arrived at by adding absolute figures.

The risk of fluctuations in net interest income is taken into account by means of repricing risk. Repricing risk measures fluctuations in net interest income resulting from differences in variable reference rates (three-month Euribor, six-month Euribor, etc.) or differences in interest fixing dates for the same reference rates. Repricing risk is individually determined for a 12-month period for each currency, scenario, indicator and product. As the basis for determining repricing risk, a constant balance sheet structure is assumed and the six BCBS scenarios are again applied. It is assumed that new transactions are concluded to replace maturing positions for the same indicator. For fixed-interest positions, it is assumed that new transactions are concluded at the respective reference rate (e.g. six-month Euribor). Decisions on new fixed-interest positions are made by ALM according to market conditions and expectations, and not on the basis of maturing fixed-rate positions. In order to manage net interest income risk with the aid of the repricing risk calculations, interest-sensitive positions with less than one year to maturity or repricing dates within a year are regularly analysed and taken into account in the risk measurement process.

**Individual portfolios**
As is the case for the banking book as a whole, limits are set and monitored in the control system for interest-sensitive portfolios for which measurement effects are recognised either directly in the IFRS statement of profit or loss or in IFRS equity. Risk assessment and limits as at 31 December 2017 were based on 1 bp present value sensitivities. Risk assessment and limits as at 31 December 2018 were set using present value sensitivities based on the six BCBS IRRBB scenarios, scaled up to a confidence level of 95%.

For non-interest-bearing equity, equity investments are made. The equity book is kept and managed separately, with the aim of limiting the fluctuations in net interest income.

**Current interest risk situation — total banking book**
The OeNB statistics indicate that interest rate risk remains low relative to the regulatory limit (20% of eligible capital). The following table shows the results of the OeNB regulatory interest rate risk statistics as at 31 December 2018 and 31 December 2017.

| OeNB regulatory interest rate risk statistics | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| OeNB interest rate risk indicator | 3.50% | 0.60% |

The tables below present the interest rate risk positions taken by the HYPO NOE Group as at 31 December 2018 and 31 December 2017.

| Interest rate risk positions (assets-liabilities), 31 Dec. 2018, EUR '000 | On-balance-sheet | Off-balance-sheet | Total |
|---|---|---|---|
| Up to 1 mth | 1,970,633 | -565,093 | 1,405,540 |
| 1-3 mths | 1,221,194 | -1,817,182 | -595,988 |
| 3-6 mths | 1,270,681 | -1,675,784 | -405,103 |
| 6 mths-1 yr | -632,299 | 696,810 | 64,510 |
| 1-2 yrs | -1,129,644 | 909,593 | -220,051 |
| 2-3 yrs | -650,706 | 460,353 | -190,353 |
| 3-4 yrs | -441,013 | 513,924 | 72,911 |
| 4-5 yrs | -857,714 | 1,016,698 | 158,985 |
| 5-7 yrs | -580,571 | 722,271 | 141,699 |
| 7-10 yrs | 368,197 | -227,302 | 140,895 |
| 10-15 yrs | -239,648 | 193,039 | -46,609 |
| 15-20 yrs | 236,664 | -239,535 | -2,870 |
| Over 20 yrs | 32,821 | -30,189 | 2,633 |

| Interest rate risk positions (assets-liabilities), 31 Dec. 2017, EUR '000 | On-balance-sheet | Off-balance-sheet | Total |
|---|---|---|---|
| Up to 1 mth | 2,745,058 | -568,288 | 2,176,769 |
| 1-3 mths | 1,063,318 | -1,777,824 | -714,506 |
| 3-6 mths | 334,217 | -849,048 | -514,830 |
| 6 mths-1 yr | -498,685 | 125,485 | -373,200 |
| 1-2 yrs | -950,584 | 585,177 | -365,407 |
| 2-3 yrs | -993,816 | 923,383 | -70,433 |
| 3-4 yrs | -446,006 | 486,599 | 40,593 |
| 4-5 yrs | -421,156 | 499,648 | 78,492 |
| 5-7 yrs | -512,335 | 676,374 | 164,039 |
| 7-10 yrs | 174,487 | -84,693 | 89,794 |
| 10-15 yrs | -181,791 | 137,189 | -44,602 |
| 15-20 yrs | 184,789 | -194,702 | -9,913 |
| Over 20 yrs | -12,305 | 10,895 | -1,411 |

As at 31 December 2018 risk utilisation was 64% of the total limit of EUR 45m (31 Dec. 2017: 31.4% of the total limit of EUR 43m). The following tables show the results of the various interest rate scenarios for the HYPO NOE Group, and how they are reflected in the internal limits, as at 31 December 2018 and 31 December 2017. For the internal risk measurement process, the six BCBS scenarios are applied and scaled up to a confidence level of 99.9%.

| Interest rate scenario, total banking book as at 31 Dec. 2018, EUR '000 | Change in present value | Scaled up to 99.9% |
|---|---|---|
| Scenario I: Parallel up | -26,146 | -28,760 |
| Scenario II: Parallel down | 26,146 | 28,760 |
| Scenario III: Steepener | -11,106 | -12,216 |
| Scenario IV: Flattener | 8,419 | 9,261 |
| Scenario V: Short rate up | -3,605 | -3,966 |
| Scenario VI: Short rate down | 3,605 | 3,966 |
| **Internal risk** | **-26,146** | **-28,760** |
| **Warning level (95% of limit)** | **-42,750** | |
| **Limit/utilisation (%)** | **-45,000** | **63.91%** |

| Interest rate scenario, total banking book as at 31 Dec. 2017, EUR '000 | Change in present value | Scaled up to 99.9% |
|---|---|---|
| Scenario I: Parallel up | 3,298 | 3,628 |
| Scenario II: Parallel down | -3,298 | -3,628 |
| Scenario III: Steepener | -10,889 | -11,978 |
| Scenario IV: Flattener | 11,785 | 12,963 |
| Scenario V: Short rate up | 12,589 | 13,848 |
| Scenario VI: Short rate down | -12,255 | -13,481 |
| **Internal risk** | **-12,255** | **-13,481** |
| **Warning level (95% of limit)** | **-40,850** | |
| **Limit/utilisation (%)** | **-43,000** | **31.35%** |

The following factors need to be borne in mind when using sensitivity analyses:

- The scenarios may not be good indicators of future events, especially where these are extreme. This could lead to underestimation or overestimation of the risks.
- The assumptions about changes in the risk factors and the relationships between them (e.g. simultaneous twists in the euro and Swiss franc yield curves) may turn out to be false, particularly if extreme events occur. There is no standard methodology for developing interest rate scenarios, and applying other scenarios would generate different outputs.
- The scenarios applied do not provide any indications of the potential losses in situations not modelled by them.

The low level of interest rates has necessitated a change in the interest rate option pricing model in the banking book. Following a wide-ranging analysis, the Bachelier model was selected and implemented. The Black-Scholes model used previously does not permit negative interest rates, which can currently be observed on the market. Therefore, the Group switched to a commonly used option valuation model that does not have this limitation. The two models differ in terms of assumed distribution for interest rate volatility. In the Bachelier model these are based on a normal distribution, while in the Black-Scholes model they are based on a log-normal distribution. The effect of the change on internal risk measurement (reduction in exposure of EUR 141thsd) and on the OeNB interest rate risk statistics (+0.05%)

was extremely minimal. The changeover was made on 31 August 2018, and initially applied in the following VERA report of 30 September 2018.

**Credit spread risk**

Credit spread risk reflects the impact of adverse changes in risk premiums on securities, and of the related loss of intrinsic value. Credit spread risks are particularly important in connection with the Group's own investments, and these risks are monitored and reported on monthly, in the market and liquidity risk report and the risk management report. The capital requirements resulting from credit spread risk are determined using a historical value-at-risk (VaR) model (historical assumptions regarding distribution) for the entire nostro portfolio in the banking book, and for the securities portfolio in the small trading book. VaR is calculated on the basis of historical credit spread scenarios, which are estimated using the IBoxx indices. The changes arrived at in this way are then aggregated, and this distribution of losses forms the basis for calculation of a loss quantile (99.9% and 95%). The historical simulation methodology uses a five-year rolling time frame. This indicator measures the potential loss in value from widening spreads that would be realised on liquidating the entire securities portfolio. The table below shows the results of the credit spread VaR analysis for the HYPO NOE Group as at 31 December 2018 and 31 December 2017, assuming a holding period of one year and with a confidence level of 99.9%.

| Credit spreads, VaR (holding period of one year, confidence level of 99.9%), EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Nostro portfolio, total | -26,091 | -29,006 |

**Foreign exchange risk**
The HYPO NOE Group's conservative risk policies are reflected in strict internal limits on open currency positions. The use of refinancing in the same currency and of FX derivatives means that foreign exchange risks for the Group are effectively eliminated. In accordance with the Capital Requirements Regulation, as at 31 December 2018 the Group was not subject to the own funds requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign exchange positions as a whole is below this figure.

The residual foreign exchange risk for all open currency positions is regularly measured and monitored using a VaR approach based on foreign currency fluctuations over time. Correlations between the various currencies are taken into consideration (by using a variance/covariance approach). More recent developments in the time series are weighted more heavily than those further in the past, with a decay factor of 0.94. The following table shows the results of the VaR analysis for the HYPO NOE Group's currency positions as at 31 December 2018 and 31 December 2017, assuming a holding period of one year and with a confidence level of 99.9%.

| Currency positions, VaR (holding period of one year, confidence level of 99.9%), EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Currency risk exposure, total | -15 | -60 |

There were no significant changes in the methods used to measure and monitor foreign exchange risk during the reporting period.

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

**Trading book risk**
The Group does not engage in any business that requires it to maintain a large trading book as defined by the CRR. It maintains a small trading book in accordance with Art. 94 CRR, and the volume of business is therefore limited in line with the provisions of that Article. Sensitivity limits and maximum loss limits have been set (31 Dec. 2018: EUR 650thsd, 31 Dec. 2017: EUR 650thsd), including an early warning indicator (31 Dec. 2018: EUR 300thsd; 31 Dec. 2017: 300thsd) that reduces the sensitivity limit by 50%. Daily monitoring is the responsibility of the Strategic Risk Management Department.

**Basis risk in hedge accounting**
Details on basis risks a can be found in Note 3.6 Hedge accounting.

**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 CVA is calculated using customary methods (expected exposure using Monte Carlo simulation and probability of default according to CDS curves). Global CDS spreads are applied (according to rating and sector), and the effects of the CVA and DVA are recognised in consolidated profit or loss. These effects are regularly analysed.

**On-balance-sheet market risk: sensitivity analysis**
Market risk sensitivities in respect of profit or loss and in respect of equity are presented below. All sensitivities are presented using a VaR approach (95% confidence level, holding period of one year) as described above for the various types of risk. Repricing risk shows the effects on net interest income.

Extensive enhancements to risk measurement procedures were implemented in 2018, and uniform sensitivity measurement was carried out in order to facilitate a consistent overview across the various types of risk, as well as to enable comparisons. In the annual financial statements for 2017, differing sensitivities were still applied for each risk type, as described below. In addition, application of IFRS 9 resulted in a change in the classification of financial instruments. For these reasons, comparison of sensitivity figures is only possible to a limited extent.

| | Profit/loss sensitivities | | | OCI sensitivities | | |
|---|---|---|---|---|---|---|
| **IFRS fair value sensitivities as at 31 Dec. 2018, EUR '000** | **VaR** | **Limit** | **Utilisation** | **VaR** | **Limit** | **Utilisation** |
| Present value interest rate risk | -2,259 | 10,000 | 23% | -1,992 | 5,000 | 40% |
| Credit spread risk | -8,153 | 15,000 | 54% | -5,477 | 15,000 | 37% |
| CVA risk | -988 | | | | | |
| FX basis risk | -2,490 | 9,000 | 28% | -261 | 1,000 | 26% |
| Banking book risk | -13,889 | | | -7,729 | | |
| Trading book interest rate risk | -95 | | | | | |

| Interest income sensitivities, EUR '000 | 31 Dec. 2018 |
|---|---|
| Scenario I: Parallel up | 26,797 |
| Scenario II: Parallel down | 46,519 |
| Scenario III: Steepener | 29,234 |
| Scenario IV: Flattener | 20,787 |
| Scenario V: Short rate up | 28,489 |
| Scenario VI: Short rate down | 43,891 |
| Worst case scenario | 20,787 |

A comparison with 2017 is presented below.

| Effect of market risk on profit for the year: sensitivity analysis, EUR '000 | 31 Dec. 2017 |
|---|---|
| **Interest rate risk** | |
| Effect of variable-rate positions on net interest income | 11,800 |
| Effect of linear fair value positions on net trading income | 1,130 |
| Effect of non-linear fair value positions on net trading income | – |
| Effect of changes in FX basis spreads on net trading income | -110 |
| **Credit spread risks** | |
| Effect of fair value portfolio on net trading income | – |
| **Foreign exchange risk** | |
| Effect of open currency positions on net trading income | -32 |
| **Options risk** | |
| Effect of interest rate options on measurement gains/losses | – |
| **Trading book risk** | |
| Effect of interest-rate-risk-bearing trading book positions on measurement gains/losses | – |
| Effect of valuation of credit-spread-risk-bearing trading book positions | – |
| Effect of valuation of exchange-risk-bearing trading book positions | – |
| **CVA/DVA risks** | |
| Effect of uncollateralised derivatives on net trading income | -2,983 |

| Effect of market risk arising from the available-for-sale portfolio on equity: sensitivity analysis, EUR '000 | 31 Dec. 2017 |
|---|---|
| Interest rate risk | -12,748 |
| Credit spread risk | -19,276 |

Sensitivity measurement assumptions applied in 2017:

- An immediate upward parallel shift of +1% in interest rate curves was assumed to determine the sensitivity of risk to changes in interest rates.
- A 10 bp change in basis spreads was used to determine the impact of current FX basis spread risk positions on net trading income.
- Risk arising from the small trading book: A 100 bp interest rate shift was applied to measure the sensitivity of risk to changes in market parameters affecting the trading book. The trading book is managed on a daily basis. Timely management combined with a limit of EUR 650thsd on year-to-date losses (including a 50% reduction in the sensitivity limit in the event of a loss of EUR 300thsd or more) places additional limits on potential losses. As at 31 December 2018 there was one position held in the small trading book.
- CVA and DVA risk: To determine sensitivity to fluctuations in the CVA and DVA, the required CVA for the uncollateralised derivative portfolio as at 31 December 2017 is recalculated on the basis of a one-notch downgrade, and then compared with the recognised CVA. A one-notch rating downgrade would result in an average increase in credit spreads of 20 bp.

**LIQUIDITY RISK**

Liquidity risk is defined as the danger that the HYPO NOE Group will be unable to meet its present and future payment obligations in full and on time, or may only be able to do so at prohibitive cost.

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

The table below shows a maturity analysis for the Group's non-derivative financial liabilities including existing financial guarantees, and for derivative financial liabilities and outstanding irrevocable loan commitments as at 31 December 2018 and 31 December 2017. Presentation is based on the following assumptions:

- Undiscounted contractual cash flows (including payments of principal and interest) are shown
- In the case of liabilities with variable cash flows, the future cash flows are calculated on the basis of forward rates
- Liabilities are reported at the earliest possible date they can be called in by the counterparty (sight deposits and savings deposits are therefore shown in the earliest maturity band, regardless of their actual maturities)
- Financial guarantees are allocated to the earliest maturity band
- Finance lease obligations are included at the expected time of payment
- Outstanding irrevocable 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
- From 31 December 2018, the liabilities are presented in accordance with IFRS categories for the purpose of consistency. The most significant items from a liquidity perspective are also listed by internal category.

**Financial liabilities – maturity analysis as at 31 December 2018, EUR '000**

| Equity and liabilities | (Notes)/internal liquidity categories | 0–1 mth | 1-3 mths | 3-12 mths | 1-5 yrs |
|---|---|---|---|---|---|
| **Financial liabilities – HFT** | **(6.15)** | **43,298** | **39,933** | **–** | **72,732** |
| | Derivative liabilities | 43,298 | 39,933 | – | 72,732 |
| **Financial liabilities – AC** | **(6.17)** | **2,291,638** | **295,758** | **2,023,990** | **4,751,669** |
| | OeNB tender/GC Pooling repo | 180,000 | – | – | 100,000 |
| | Fixed-term interbank deposits | 14,985 | – | 223,670 | – |
| | Liabilities from collateral received for derivatives | 79,875 | – | – | – |
| | Customer deposits | 1,999,664 | 259,964 | 807,452 | 204,429 |
| | Unsecured own issues | 3,579 | 19,838 | 262,813 | 1,421,693 |
| | Secured own issues | 13,536 | 15,956 | 730,054 | 3,025,547 |
| **Financial liabilities – FVO** | **(6.16)** | **–** | **–** | **–** | **–** |
| **Contingent liabilities** | | **1,037,743** | **–** | **–** | **–** |
| | Financial guarantees | 134,956 | – | – | – |
| | Loan commitments | 902,787 | – | – | – |
| **Other items relevant to liquidity** | | **10,480** | **20,000** | **45,840** | **120,587** |
| | Finance lease obligations | 10,480 | 20,000 | 45,840 | 120,587 |

| Financial liabilities – maturity analysis as at 31 December 2017, EUR '000 | 0–1 mth | 1-3 mths | 3-12 mths | 1-5 yrs |
|---|---|---|---|---|
| OeNB tender/GC Pooling repo | – | – | – | 100,000 |
| Fixed-term interbank deposits | 19,245 | 501 | 248,801 | – |
| Liabilities from collateral received for derivatives | 82,065 | – | – | – |
| Customer deposits | 2,428,855 | 362,115 | 1,030,947 | 136,556 |
| Unsecured own issues | 3,682 | 30,961 | 611,486 | 950,099 |
| Secured own issues | 13,535 | 45,243 | 145,100 | 3,210,076 |
| Financial guarantees | 122,428 | – | – | – |
| Finance lease obligations | 14,105 | 25,500 | 94,395 | 374,000 |
| Derivative liabilities | 85,098 | 235 | 16,609 | 72,732 |
| Loan commitments | 1,105,894 | – | – | – |

The majority of derivative liabilities are collateralised with cash, or arise due to the inclusion of gross values for foreign exchange derivatives and forwards. As a result, actual net liquidity outflows will be less than the figure shown in the maturity analysis. In connection with derivatives with credit support annexes (CSAs), the general risk of remargining is taken into account in the calculation of the survival period, which is 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 2018 and to 31 December 2017, expressed in EUR thsd, is shown in the table below.

| 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|
| 197,211 | 240,000 |

Irrevocable "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, SME and institutional customers. OeNB tenders and GC Pooling repos are used to manage liquidity.

The concentration of deposits from individual retail customers is usually low in volume terms, so the Bank has no significant concentration risks in this segment. By contrast, customer-specific concentrations are possible with institutional customers, some of which are in a position to make large investments. The Bank offers tailored products to achieve a certain distribution between various longer-term maturity bands. Liquidity risk management takes account of the possibility that institutional customers will withdraw deposits on maturity using scenarios based on experience of past crises; these form parts of the internal operational liquidity stress tests used to calculate the survival period. The ten largest fixed-term deposits made by institutional customers for the year to 31 December 2018 and 31 December 2017 were as follows (EURthsds):

| | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| 1 | 125,000 | 242,000 |
| 2 | 89,000 | 125,000 |
| 3 | 79,992 | 79,000 |
| 4 | 74,982 | 78,000 |
| 5 | 46,000 | 73,400 |
| 6 | 45,000 | 65,000 |
| 7 | 45,000 | 60,000 |
| 8 | 40,000 | 50,800 |
| 9 | 35,000 | 50,000 |
| 10 | 33,452 | 47,370 |

The HYPO NOE Group maintains a balanced refinancing mix. Collateralised and uncollateralised capital market issues are a core component of the refinancing structure, and will remain so in future. In contrast with the regular deposits business, issues allow the Bank to access long-term refinancing and offset the maturity transformation risk resulting from provision of long-term loans. Care is also taken to avoid concentrations in the maturity profile of issued debt.

In 2018, the main factor influencing the capital market maturities structure was a senior unsecured benchmark issue that fell due. This was effectively replaced by the EUR 500m senior unsecured benchmark issue placed in the first half of the year.

Secured capital accounts for a significant portion of the Group's total refinancing, and will continue to do so in future; it is also very stable in times of crisis. Another 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 in a crisis. On the secured capital market, a EUR 500m benchmark covered bond from the public sector cover pool was issued in 2018.

Fixed-term interbank deposits represent a further source of refinancing. The following table shows the ten largest deposits by customer (in EURthsd).

| | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| 1 | 134,000 | 134,000 |
| 2 | 40,000 | 50,000 |
| 3 | 25,000 | 40,000 |
| 4 | 20,000 | 20,000 |
| 5 | 10,000 | 10,000 |
| 6 | 10,000 | 8,250 |
| 7 | – | 5,000 |
| 8 | – | 250 |
| 9 | – | – |
| 10 | – | – |

The HYPO NOE Group's available liquidity reserve, cash reserves and overnight investments are the primary instruments 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 2018 and 31 December 2017 was as follows:

| Available liquidity reserve as at 31 Dec. 2018, EUR m | T0 | 1 mth | 3 mths | 12 mths |
|---|---|---|---|---|
| HQLA | 978 | 978 | 947 | 926 |
| Other collateral eligible for ECB tenders or GC Pooling repos | 741 | 903 | 822 | 1,044 |

| Available liquidity reserve as at 31 Dec. 2017, EUR m | T0 | 1 mth | 3 mths | 12 mths |
|---|---|---|---|---|
| HQLA | 979 | 979 | 939 | 932 |
| Other collateral eligible for ECB tenders or GC Pooling repos | 966 | 926 | 905 | 750 |

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 have matured, there could be an increase in the portfolios included in the maturity profile.

By definition, the focus of investments made from the liquidity reserve is restricted to HQLA, OeNB tenders or GC Pooling repoable collateral. As domestic investments are given priority, the concentration is mainly in low-risk Austrian government bonds.

If the refinancing options are not sufficient to cover financial liabilities, the Bank's emergency processes and measures are triggered. Based on the internal liquidity risk management processes, the necessary action takes place well before the occurrence of a situation that could pose a threat to the Group's continued operation.

The following information on the Group's liquidity risk management processes includes details of the individual components of the comprehensive liquidity risk management framework and how they work together. The framework takes into account all of the key aspects of liquidity risk management, including preparation and implementation of a refinancing and risk strategy adapted to the business model and the appetite for risk; use and regular monitoring of suitable methods and processes for determining, measuring, monitoring and managing liquidity risk; and implementation of effective escalation processes and contingency plans.

**Liquidity risk management**

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

This forms the basis for the Group's fundamental objectives for liquidity risk management, which are:

- Maintaining an appropriate liquidity buffer to ensure solvency at all times, on the basis of a system of stress tests and limits
- Optimising the refinancing structure with respect to risk tolerance, maturity transformation and costs
- Detailed planning of the medium-to-long-term refinancing strategy
- Coordinating issuing activities in the money and capital markets
- Pricing commensurate with risks and costs
- Complying with statutory regulations and environmental conditions

These objectives define the core elements of the Group's liquidity risk management processes, namely:

- Identifying and regularly evaluating liquidity risks
- Identifying and regularly reviewing the suitability of models and processes for measuring liquidity risks
- Quantifying liquidity risk on the basis of the established processes
- Identifying and complying with statutory regulations and environmental conditions
- Management's determination of risk appetite/tolerance
- 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 and appropriate
- Efficient and timely management of operational liquidity
- Implementing and monitoring the medium-to-long-term refinancing strategy
- Using 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, the Strategic Risk Management Department produces comprehensive regular reports.

**Implementation of liquidity risk management processes**

The Strategic Risk Management Department prepares an extensive monthly liquidity risk report for the purposes of analysing and controlling operational and structural liquidity, and monitoring compliance with the liquidity risk limits. The operational liquidity risk over a period of 12 months for a normal scenario (volatility scenario) as well as for three stress scenarios (bank name crisis, market crisis and combined crisis), and the structural liquidity risk in the normal scenario are presented and analysed. In addition, the Group Management Board receives a comprehensive monthly liquidity report, incorporating planning assumptions and key liquidity risk indicators, as well as information on the current liquidity situation. The Management Board also receives regular reports on the liquidity position and limit utilisation from the ALM Committee and RICO.

In preparing the liquidity cash flow forecast and the various liquidity scenarios, all on-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 that for which stochastic modelling is used. For the positions evaluated stochastically, repayment scenarios are based on statistical models, benchmarks and/or expert valuations in order to determine the expected capital commitment.

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

The HYPO NOE Group's operational liquidity capacity is evaluated and monitored on a monthly basis in terms of the length of time that 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. When determining the survival period in the stress scenarios, the fundamental assumption is made that no significant changes in the business model or the risk strategy have as yet been initiated in order to reduce illiquidity. The size of the limit is such that the standardised escalation processes can be set in motion as required – in time to react quickly to potential shortages of liquidity and initiate the necessary countermeasures. The stress test horizon is one year. The basic assumptions for the individual stress scenarios are set out below.

- For the bank **name crisis** scenario, a deterioration in the HYPO NOE Group's individual liquidity is simulated. Other market participants are not initially affected by the crisis, but react directly, for example by withdrawing their deposits from the Bank. At the same time, the Group's refinancing options in the money and capital markets are severely reduced or non-existent.
- In the **market crisis** scenario, a general deterioration in the liquidity of money and capital markets is assumed, and access to money and capital market refinancing is also taken to be very limited. In addition, the available liquidity reserve can be expected to fall in value as a result of declining market prices, as market participants' risk aversion increases. The effects on customer deposits are assumed to be smaller than in a bank name crisis and, as the Group is owned by the State of Lower Austria, may be seen as positive, given that in a general crisis customers' need for security is increased.
- The **combined crisis** links a bank name crisis with a market crisis. It should be noted that in such a crisis, the stress factors of the two components are not simply added: special parameters come into play. Refinancing in the money or capital markets is hardly possible at all, the liquidity buffer shrinks as market prices fall, and customer deposits are withdrawn in larger volumes, although not to the same extent as in a bank name crisis, since other market participants are also affected.
- A **normal scenario** is also simulated. This matches routine business developments, as well as customary fluctuations in deposits and withdrawals attributable to contingent liabilities, and is therefore also referred to as the volatility scenario.

With a limit of eight weeks (or 12 weeks in the case of an early warning), the HYPO NOE Group's survival period as at 31 December 2018 was a robust 39 weeks (31 Dec. 2017: 26 weeks). In addition to the survival period, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is reported monthly and is integrated in the operational liquidity management and planning processes. The LCR reported to the regulator was 198% as at 31 December 2018 (31 Dec. 2017: 186%). A regulatory limit of 100% and an internal limit of 120% are currently envisaged for 2018. Volume limits based on maturities are also in place, in order to control unsecured bank money market exposures. 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 observed throughout the period under review.

For structural liquidity risk, the period and cumulative liquidity gaps are presented in one-year maturity bands; here, the focus is mainly on contractual cash flows generated by existing business. Modelled cash flows only play a minor role. Assumptions are also made regarding new business and prolongations.

The HYPO NOE Group uses economic capital as a major metric for structural liquidity risk. Economic capital represents the maximum possible net interest loss that can be absorbed in the course of one year. For liquidity risk it is calculated using higher costs, as a result of potentially higher refinancing spreads over a year. On the basis of historical funding costs, the maximum expected increase in refinancing costs over the period of a year is calculated with a given confidence level for each major funding instrument. Actual performance is then monitored. The economic capital for a limit of EUR 10m was EUR 7.0m as at 31 December 2018 (31 Dec. 2017: EUR 7.9m, limit of EUR 12m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn, and the structural funding ratio (SFR), an indicator included in the recovery plan, has been applied since 30 September 2018. The SFR is an indicator of maturity transformation risk. It is calculated as the ratio of the current one-year liquidity gap and the available liquidity reserve to a predefined portion of deposits. As at the end of the reporting period, the SFR was significantly higher than the internal early warning threshold of 125%, and it currently stands at 389% (no comparative figure available for year-end 2017).

Besides these limits, there are early warning indicators to identify impending critical liquidity situations as early as possible, so that the Bank can initiate timely countermeasures.

**Contingency plan**
The liquidity contingency plan is designed to maintain effective liquidity management even in a market crisis. The plan sets out the responsibilities in case of emergencies, the composition of the crisis management teams, the internal and external communication channels, and the actions to be taken. In emergency situations, a crisis management team takes control of liquidity management and decides on action to be taken on a case-by-case basis. The contingency plan comprises an assortment of measures useful in overcoming a liquidity crisis; these measures were identified, analysed and documented in a multi-stage selection process. For each of the measures, their feasibility and usefulness in a variety of basic types of stress scenario was evaluated, the quantitative and qualitative effects worked out, and the individual steps in the implementation process determined.

**Current liquidity risk situation**
The HYPO NOE Group is well positioned in terms of refinancing options and draws its liquidity from conventional capital market transactions and deposits, as well as from standard repo transactions and ECB tenders. The Bank also obtains refinancing on the basis of its close relationships with development banks. The growth in business with institutional investors in the past few years has shown that the Group is a valued partner for these types of customers, too. In 2018, the volume of business was reduced in favour of longer-term capital market transactions. In the course of the year it became clear that the level of transactions with institutional investors can be increased at any time owing to their consistently strong demand.

The international capital markets saw particularly lively issuance activity in the first half of 2018. The HYPO NOE Group took advantage of this trend and its high profile among Austrian and international investors to place a EUR 500m senior unsecured benchmark issue with a maturity of 5.5 years. A seven-year, EUR 500m benchmark covered bond from the public sector cover pool was issued at the end of August. Due to the success of these benchmark issues on attractive terms, no other capital market transactions were necessary in 2018.

The HYPO NOE Group's liquidity position is strong. The Bank's refinancing mix, comprising current and savings account deposits, fixed-term deposits from institutional customers and capital market debt issues, safeguards this over the long term. This broad-based refinancing portfolio is supplemented by sufficient marketable securities.

Throughout the period under review, the regulatory indicators for limiting liquidity risk – the Basel III indicators, liquidity coverage ratio (LCR), net stable funding ratio (NSFR) and additional liquidity monitoring metrics (AMM) – were calculated on the basis of the published standards and reported to the Austrian regulatory authorities. Where applicable, the minimum regulatory requirements were observed. In future, compliance with the statutory regulations in day-to-day operations will be underpinned by the integration of requirements into internal liquidity risk management and planning processes, together with strict internal guidelines and the operational control processes already in place.

The HYPO NOE Group refines its liquidity risk management system on an ongoing basis, principally by incorporating the results of model and parameter validations, stress tests and emergency simulations.

Process-related and technical refinements to indicators used in liquidity risk reporting (e.g. the LCR, NSFR and AMM) were implemented and further improvements were made to report preparation procedures.

## OPERATIONAL RISK

Operational risk is the danger of losses arising directly or indirectly from the inadequacy or failure of internal processes or systems, human error or external events. In each category of operational risk, legal risks can result in losses. The reason is that in every category the HYPO NOE Group can be exposed to claims or legal proceedings based on alleged breaches of contractual, statutory or regulatory obligations. Reputational risk is closely related to operational risk, but is treated as a separate category. Business risks do not form part of operational risk.

Operational risks in the HYPO NOE Group are subject to a consistent Group-wide system of controls. The following processes and procedures are used to identify, evaluate and reduce operational risks:

- Ongoing identification and analysis of operational risk events, including introducing measures to avoid similar events in future and regular reporting to the Management Board
- Ongoing monitoring of the implementation and success of the measures, and submission of a quarterly status report to the Management Board

- Monitoring the potential future operational risk profile using key risk indicators
- Evaluating factors that could alter the risk profile, such as the introduction of new products or outsourcing
- Ongoing adaptation and improvement of existing internal guidelines
- Using the emergency plans that form part of the business continuity management (BCM) system to manage risks that threaten business continuity
- Strict adherence to the four-eye management principle to reduce the likelihood of the occurrence of risks
- In-service training as part of staff development;
- Insurance against various risks

There is also a strong emphasis on continuous improvement of the effectiveness and efficiency of operational risk management processes. The operation and adaptation of an integrated internal control system (ICS) is intended to reduce the probability and minimise the effects of operational risk events. Risks are systematically identified and assessed, controls are agreed and, where necessary, key processes are adapted.

**Current operational risk situation**
Detailed information on operational risk events in the year under review was collected in a database. Improvements are seen as a major way of controlling operational risk: appropriate improvements were formulated and implemented as operational risk events and near-miss incidents occurred.

The results of early-warning and key risk indicators were satisfactory.

The ICS was updated in the course of the annual review.

The risk content of new products was assessed using a standard risk evaluation application, which is an integral part of the product launch process.

In the first half of 2018, the HYPO NOE Group implemented the new outsourcing requirements of section 25 Banking Act, as well as the Bank's related outsourcing strategy and guidelines.

## REPUTATIONAL RISK

The HYPO NOE Group attaches great importance to avoiding reputational risk, and it is therefore treated as a separate risk category. Avoiding potential damage to the reputation of the HYPO NOE Group is a vital consideration when making business decisions, and a process for evaluating reputational risk is in place.

Reputational risk is the danger of direct or indirect harm to the Group's reputation, and the opportunity costs entailed by such damage. Damage to the HYPO NOE Group's reputation can compromise its standing and undermine the confidence of stakeholders — such as customers, providers of finance, staff, business partners and the community — in the Bank. The reasons may lie in a 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 Group employees. The HYPO NOE Group also takes care to avoid business policies and transactions associated with unusual tax or legal risks, or with major environmental risks. The Group has implemented clear ethics guidelines and business principles for its financing activities, so that its lending policies follow its holistic sustainability approach in respect of environmental and social considerations to the letter. In this way, the Bank ensures that loans are only extended for purposes that are consonant with its philosophy and sustainability strategy. The ethics guidelines and business principles comprise inclusion and exclusion criteria, which are the basis for initiating new business throughout the Group. Potential reputational risks are also taken into account in a "reputational risk questionnaire" that forms part of the credit application, and serves as an essential filter within the process.

The independent Group ombudsman deals quickly and efficiently with customers' concerns (such as complaints and misunderstandings) and aims to find satisfactory solutions to problems in consultation with the customers themselves. Besides meeting the statutory requirements for improving customer relations, the goal is to reduce reputational risk.

## OTHER RISKS

Other risks consist largely of business risks (the danger of loss as a result of a deterioration in the economic environment, or in the HYPO NOE Group's business relationships) and strategic risks (the danger of losses arising from decisions concerning the Group's strategic focus and business development).

Business risk and strategic risk can collectively be referred to as business model risk. Business model risk is the danger of loss due to a deterioration in the general economic environment, including changes in the marketplace, customer behaviour and regulatory requirements. Business model risk also encompasses the danger of losses arising from decisions on strategic focus and business development taken by the Group or individual subsidiaries. These can result in long-term declines in earnings, leading to a reduction in shareholder value.

The Group identifies, quantifies and monitors potential business model risks and takes negative changes into account 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.

## 8.7 Supplementary disclosures

**Joint and several liability for Pfandbriefbank (Österreich) AG liabilities**
As a member bank of Pfandbriefstelle der österreichischen Landes-Hypothekenbanken, under section 2(1) Pfandbriefstelle-Gesetz (Pfandbriefstelle Act) HYPO NOE Landesbank für Niederösterreich und Wien AG is jointly and severally liable, together with the other members, 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. As at the end of the reporting period, there were no liabilities subject to this obligation (31 Dec. 2017: EUR 71,625thsd).

It should be noted that on 15 January 2015, the business operations of the Pfandbriefstelle were retroactively transferred to Pfandbriefbank (Österreich) AG with effect from 31 December 2013, and that according to a notice issued by the FMA relating to the surrender of Pfandbriefbank (Österreich) AG's banking licence, the latter has been in liquidation since 1 June 2018.

**Contingent liability of the State of Lower Austria**
Under section 1356 Austrian Civil Code, the State of Lower Austria is liable, as the deficiency guarantor, for all the liabilities incurred by HYPO NOE Landesbank für Niederösterreich und Wien AG up to and including 2 April 2003. Liabilities incurred between 3 April 2003 and 1 April 2007 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 2018 state government guarantees of issues, deposits and other liabilities were:

- EUR 137,497thsd (2017: EUR 163,469thsd) for the HYPO NOE Group

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Securities admitted to trading (assets)**<br>No unlisted securities were held | **Listed** | **Listed** |
| Bonds and other fixed-income securities | 561,148 | 535,274 |

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Negotiable securities assigned to fixed assets** | | |
| Bonds and other fixed-income securities | 435,116 | 402,093 |

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Assets pledged as collateral** | | |
| Cover pool for covered bonds and public sector covered bonds (debts evidenced by certificates) | 6,036,501 | 6,017,408 |
| Covering loans | 5,976,507 | 5,900,402 |
| Securities | 59,993 | 117,006 |
| Marketable collateral (securities) delivered to the collateral custody account with the OeNB (for deposits from banks)* | 243,733 | 223,217 |
| Non-marketable collateral (loans) transferred to the OeNB (for deposits from banks)* | 403,872 | 326,392 |
| *OeNB tenders | 279,554 | 100,000 |
| Securities pledged to the EIB (for deposits from banks) | 120,102 | 120,613 |
| Collateral delivered (cash) (for derivatives) | 709,842 | 775,738 |

| | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| After-tax return on assets (ratio of profit for the year to total assets) | 0.26% | 0.22% |

**Supplementary disclosures pursuant to the Austrian Business Code**

The HYPO NOE Group's rental and lease commitments amount to EUR 974thsd in 2019 (2018: EUR 5,086thsd) and EUR 1,719thsd in total for the 2019-2023 financial years.

**Supplementary disclosures pursuant to the Austrian Banking Act**

Foreign currency assets amounting to EUR 263,284thsd (2017: EUR 301,751thsd) and foreign currency liabilities amounting to EUR 681,250thsd (2017: EUR 696,472thsd) are included in the total assets of HYPO NOE Landesbank für Niederösterreich und Wien AG pursuant to the Austrian Banking Act.

Expenses arising from subordinated debt totalled EUR 65thsd (2017: EUR 725thsd), of which EUR 0 (2017: EUR 656thsd) was attributable to HYPO NOE Landesbank für Niederösterreich und Wien AG.

Receivables falling due within one year from bonds and other fixed-income securities amounted to EUR 84,005thsd (2017: EUR 53,840thsd), and those from bonds issued to EUR 844,138thsd (2017: EUR 623,625thsd).

An atypical silent partnership is recognised in subordinated capital, with a minimum return independent of earnings of EUR 65thsd (2017: EUR 65thsd).

Securities intended to be a permanent part of business operations form part of financial assets.

For pension benefits, service cost is spread across the period from commencement of employment until the employee reaches the statutory retirement age, in the case of at least ten years of service up to the age of 60 (for women) or 65 (for men).

### 8.7.1 ANALYSIS OF ASSETS BY MATURITIES

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Financial assets – HFT** | | |
| Repayable on demand | – | N/A |
| Up to 3 mths | 7 | N/A |
| 3 mths-1 yr | 771 | N/A |
| 1-5 yrs | 20,678 | N/A |
| Over 5 yrs | 407,527 | N/A |
| **Total** | **428,983** | **N/A** |
| **Assets held for trading** | | |
| Repayable on demand | N/A | – |
| Up to 3 mths | N/A | 235 |
| 3 mths-1 yr | N/A | 180 |
| 1-5 yrs | N/A | 9,983 |
| Over 5 yrs | N/A | 465,854 |
| **Total** | **N/A** | **476,252** |
| **Financial assets – mandatorily FVTPL** | | |
| Repayable on demand | 2,622 | N/A |
| Up to 3 mths | 1,279 | N/A |
| 3 mths-1 yr | 23,044 | N/A |
| 1-5 yrs | 100,163 | N/A |
| Over 5 yrs | 135,367 | N/A |
| **Total** | **262,475** | **N/A** |
| **Financial assets designated as at fair value through profit or loss** | | |
| Repayable on demand or no fixed term | N/A | – |
| Up to 3 mths | N/A | 205 |
| 3 mths-1 yr | N/A | 616 |
| 1-5 yrs | N/A | 18,653 |
| Over 5 yrs | N/A | – |
| **Total** | **N/A** | **19,474** |
| **Financial assets – FVOCI** | | |
| Repayable on demand or no fixed term | 3,510 | N/A |
| Up to 3 mths | 69,273 | N/A |
| 3 mths-1 yr | 51,401 | N/A |
| 1-5 yrs | 339,005 | N/A |
| Over 5 yrs | 297,027 | N/A |
| **Total** | **760,216** | **N/A** |
| **Available-for-sale financial assets** | | |
| Repayable on demand or no fixed term | N/A | 58,887 |
| Up to 3 mths | N/A | 69,568 |
| 3 mths-1 yr | N/A | 128,281 |
| 1-5 yrs | N/A | 652,372 |
| Over 5 yrs | N/A | 685,081 |
| **Total** | **N/A** | **1,594,189** |

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Financial assets – AC** | | |
| Repayable on demand | 163,693 | N/A |
| Up to 3 mths | 293,895 | N/A |
| 3 mths-1 yr | 887,432 | N/A |
| 1-5 yrs | 3,418,450 | N/A |
| Over 5 yrs | 6,877,205 | N/A |
| **Total** | **11,640,675** | **N/A** |
| **Loans and advances to banks** | | |
| Repayable on demand | N/A | 776,424 |
| Up to 3 mths | N/A | – |
| 3 mths-1 yr | N/A | 33,871 |
| 1-5 yrs | N/A | 504 |
| Over 5 yrs | N/A | 50,022 |
| **Total** | **N/A** | **860,821** |
| **Loans and advances to customers** | | |
| Repayable on demand | N/A | 142,949 |
| Up to 3 mths | N/A | 446,876 |
| 3 mths-1 yr | N/A | 783,475 |
| 1-5 yrs | N/A | 2,874,916 |
| Over 5 yrs | N/A | 5,982,016 |
| **Total** | **N/A** | **10,230,232** |
| **Positive fair value of derivatives (hedge accounting)** | | |
| Repayable on demand or no fixed term | – | – |
| Up to 3 mths | 1,354 | 8,193 |
| 3 mths-1 yr | 13,046 | 1,920 |
| 1-5 yrs | 130,481 | 151,308 |
| Over 5 yrs | 232,253 | 243,808 |
| **Total** | **377,134** | **405,229** |
| **Other assets** | | |
| Repayable on demand or no fixed term | 11,269 | 6,401 |
| Up to 3 mths | 10,157 | 12,040 |
| 3 mths-1 yr | 968 | 8,654 |
| 1-5 yrs | 2,740 | 94,200 |
| Over 5 yrs | 5,880 | 105,532 |
| **Total** | **31,013** | **226,827** |

### 8.7.2 ANALYSIS OF LIABILITIES BY MATURITIES

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Financial liabilities – HFT** | | |
| Repayable on demand or no fixed term | – | N/A |
| Up to 3 mths | 716 | N/A |
| 3 mths-1 yr | 735 | N/A |
| 1-5 yrs | 22,396 | N/A |
| Over 5 yrs | 367,581 | N/A |
| **Total** | **391,428** | **N/A** |
| **Liabilities held for trading** | | |
| Repayable on demand | N/A | – |
| Up to 3 mths | N/A | 215 |
| 3 mths-1 yr | N/A | 154 |
| 1-5 yrs | N/A | 12,868 |
| Over 5 yrs | N/A | 419,479 |
| **Total** | **N/A** | **432,716** |
| **Financial liabilities – FVO** | | |
| Repayable on demand | – | N/A |
| Up to 3 mths | – | N/A |
| 3 mths-1 yr | – | N/A |
| 1-5 yrs | 3,500 | N/A |
| Over 5 yrs | – | N/A |
| **Total** | **3,500** | **N/A** |
| **Financial liabilities – AC** | | |
| Repayable on demand or no fixed term | 1,706,482 | N/A |
| Up to 3 mths | 600,555 | N/A |
| 3 mths-1 yr | 2,132,568 | N/A |
| 1-5 yrs | 4,633,936 | N/A |
| Over 5 yrs | 3,033,082 | N/A |
| **Total** | **12,106,624** | **N/A** |
| **Deposits from banks** | | |
| Repayable on demand or no fixed term | N/A | 112,504 |
| Up to 3 mths | N/A | 20,216 |
| 3 mths-1 yr | N/A | 284,628 |
| 1-5 yrs | N/A | 147,589 |
| Over 5 yrs | N/A | 409,980 |
| **Total** | **N/A** | **974,918** |
| **Deposits from customers** | | |
| Repayable on demand or no fixed term | N/A | 1,406,980 |
| Up to 3 mths | N/A | 669,662 |
| 3 mths-1 yr | N/A | 1,375,198 |
| 1-5 yrs | N/A | 455,325 |
| Over 5 yrs | N/A | 142,681 |
| **Total** | **N/A** | **4,049,846** |

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| **Debts evidenced by certificates** | | |
| Repayable on demand or no fixed term | N/A | 578 |
| Up to 3 mths | N/A | 49,159 |
| 3 mths-1 yr | N/A | 648,287 |
| 1-5 yrs | N/A | 3,811,301 |
| Over 5 yrs | N/A | 2,774,561 |
| **Total** | **N/A** | **7,283,886** |
| **Negative fair value of hedges (hedge accounting)** | | |
| Repayable on demand | – | – |
| Up to 3 mths | 2,510 | 2,053 |
| 3 mths-1 yr | 3,045 | 1,024 |
| 1-5 yrs | 48,721 | 55,559 |
| Over 5 yrs | 610,897 | 646,980 |
| **Total** | **665,173** | **705,616** |
| **Other liabilities** | | |
| Repayable on demand or no fixed term | 2,252 | 3,626 |
| Up to 3 mths | 25,590 | 22,306 |
| 3 mths-1 yr | 32,438 | 27,685 |
| 1-5 yrs | 61,960 | 76,068 |
| Over 5 yrs | 6,267 | 10,160 |
| **Total** | **128,507** | **139,845** |

## 8.8 Transfer of financial assets

The following table shows the carrying amounts of financial assets that have been transferred but not derecognised.

| EUR '000 | 31 Dec. 2018 | | 31 Dec. 2017 | |
|---|---|---|---|---|
| | Transferred assets | Related liabilities | Transferred assets | Related liabilities |
| Financial assets – FVOCI | 251,352 | 120,029 | N/A | N/A |
| Bonds | 251,352 | 120,029 | N/A | N/A |
| Available-for-sale financial assets | N/A | N/A | 542,789 | 129,307 |
| Debt securities | N/A | N/A | 542,789 | 129,307 |
| Financial assets – AC | 701,897 | 253,932 | N/A | N/A |
| Loans | 544,986 | 185,500 | N/A | N/A |
| Bonds | 156,912 | 68,432 | N/A | N/A |
| Loans and advances to customers and banks | N/A | N/A | 543,253 | 63,867 |
| Debt securities | N/A | N/A | 81,745 | – |
| Loans and advances | N/A | N/A | 461,507 | 63,867 |
| **Total** | **953,249** | **373,961** | **1,086,041** | **193,174** |

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

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

## 8.9 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. Fees and commissions are reported in the statement of comprehensive income (Note 5.3 Net fee and commission income, under "Other fee and commission income"/"Other fee and commission expense").

## 8.10 Contingent liabilities and credit risk

### 8.10.1 CONTINGENT LIABILITIES

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Liabilities arising from guarantees and provision of collateral | 134,956 | 122,428 |

### 8.10.2 CREDIT RISK

| EUR '000 | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Unutilised facilities | 902,773 | 1,105,894 |

"Unutilised facilities" includes 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.

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

| 31 Dec. 2018, EUR '000 | Coverage required for debts evidenced by certificates | Coverage of: Loans | Securities | Surplus coverage |
|---|---|---|---|---|
| Covered bonds | 1,131,953 | 1,642,526 | 24,206 | 534,779 |
| Public sector covered bonds | 3,914,606 | 4,333,982 | 138,526 | 557,902 |
| **Total** | **5,046,559** | **5,976,508** | **162,732** | **1,092,681** |

| 31 Dec. 2017, EUR '000 | Coverage required for debts evidenced by certificates | Coverage of: Loans | Securities | Surplus coverage |
|---|---|---|---|---|
| Covered bonds | 1,131,982 | 1,582,951 | 25,000 | 475,969 |
| Public sector covered bonds | 3,516,266 | 4,317,451 | 92,006 | 893,191 |
| **Total** | **4,648,248** | **5,900,402** | **117,006** | **1,369,160** |

## 8.12 Events after the reporting period

There have been no material events since the end of the reporting period.

## 8.13 Governing bodies of HYPO NOE Landesbank für Niederösterreich und Wien AG

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

On 21 June 2018, the Supervisory Board resolved to accept the request of Peter Harold to step down as Chairman of the Management Board with effect from 30 November 2018. Rainer Gutleder was delegated by the Works Council to the Supervisory Board with effect from 13 July 2018 , replacing Hermann Haitzer.

**Management Board**
Peter Harold, Chairman (until 30 Nov. 2018)
Wolfgang Viehauser, Management Board Member Markets, Spokesman
Udo Birkner, Management Board Member Finance, Risk & Operations

**Supervisory Board**
Günther Ofner, Chairman
Michael Lentsch, Deputy Chairman
Karl Fakler
Gottfried Haber
Birgit Kuras
Ulrike Prommer
Karl Schlögl
Hubert Schultes

**Delegated by the Works Council**
Hermann Haitzer (until 31 Jan. 2018)
Franz Gyöngyösi
Claudia Mikes
Rainer Gutleder (from 13 Jul. 2018)
Peter Böhm

**Federal commissioners**
Hans-Georg Kramer, Federal Ministry of Finance
Johannes Pasquali, Federal Ministry of Finance

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

St. Pölten, 18 February 2019
The Management Board

**Wolfgang Viehauser**
Management Board Member
Markets and Spokesman

**Udo Birkner**
Management Board Member
Finance, Risk & Operations

Photo: shutterstock.com/novama

# Nussdorf

**VIENNA AND ITS WINE**

Anyone tempted to travel back to the days of traditional Viennese wine culture, before skyscrapers and busy roads became part of city life, just needs to take a trip on the S40 suburban rail line or the D tram to Nussdorf. This traditional winemaking village charms visitors with its pretty little lanes and idyllic vineyards – the perfect place to enjoy a glass of Riesling or Pinot blanc. Afterwards, there's ample chance to take in the view over modern Vienna from the slopes of the Nussberg hill.

# DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the 2018 consolidated financial statements of HYPO NOE Group give a true and fair view of the Group's assets, finances and earnings, in conformity with the relevant accounting standards; that the Group operational and financial review presents the course of the Group's business, and its results and financial condition in such a manner as to give a true and fair view of the Group's assets, finances and earnings; and that the Group operational and financial review describes the principal risks and uncertainties to which the Group is exposed.

St. Pölten, 18 February 2019
The Management Board

**Wolfgang Viehauser**
Management Board Member
Markets and Spokesman

responsible for

Sales Support & Ombudsman, Marketing & Sponsorship, Public Sector, Retail Customers, Corporate Customers, Real Estate Customers and Treasury & ALM, spokesman.

**Udo Birkner**
Management Board Member
Finance, Risk & Operations

responsible for

Group General Secretariat & Law, Compliance, Human Resources, Finance, Risk, Operations/ Organisation & IT, Real Estate Services and Internal Audit.

# AUDITORS' REPORT

## Report on the Audit of the Consolidated Financial Statements

**Opinion**
We have audited the consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG, St. Pölten, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB and the Austrian Banking Act.

**Basis for Opinion**
We conducted our audit in accordance with Regulation (EU) No. 537/2014 and with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**MEASURING EXPECTED CREDIT LOSSES OF FINANCIAL INSTRUMENTS BOTH WITHOUT SIGNIFICANTLY INCREASED CREDIT RISK ("STAGE 1") AS WELL AS WITH SIGNIFICANTLY INCREASED CREDIT RISK ("STAGE 2")**

**Description and Issue**
IFRS 9 "Financial Instruments" includes extensive revision regarding impairment of financial instruments to be applied on January 1, 2018. As of December 31, 2018 volume of gross book values of financial assets in stage 1 and stage 2 amounts to EUR 11.818 Mio. and EUR 1.549 Mio. respectively. The associated risk provisions amount to EUR 8 Mio (stage 1) and EUR 17 Mio (stage 2). The measurement of expected credit losses of financial instruments shall consider reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions. This requires making assumptions, discretionary decision making and estimations as well as complex data preparation- and -analysis procedures for individual customer groups, especially regarding estimations of probabilities of default (PD) and loss given default (LGD).

We refer to the "Measurement parameters for the calculation of default risk and expected credit loss" in Note 3.3.2 Impairment losses/gains on financial assets – IFRS 9 ECL, as well as the detailed amounts in Note 5.7 Impairment losses/gains on financial assets – IFRS 9 ECL.

Given the importance for the consolidated financial statements and the significant uncertainty of estimations as well as complexity involved in assessing the required parameters PD and LGD, we identified expected credit losses of financial assets in stage 1 and stage 2 as a key audit matter.

**Our response**
In order to evaluate adequacy of booked risk provisions, we identified the bank's methods for measurement of expected credit losses and assessed its compliance with the requirements of IFRS 9. We evaluated design, implementation and effectiveness of the controls relevant to the assessment of significant parameters used for measurement of expected credit losses. We critically reviewed models and concepts for measuring expected credit losses and re-performed calculations to assess significant parameters. We tested that measurement of expected credit losses considered these parameters as well as all relevant financial instruments. .

**IMPAIRMENT OF LOANS WITH INCREASED RISK CRITERIA (THE "WATCH-LOANS")**

**Description and Issue**
As of December 31, 2018 volume of loans to customers with increased risk criteria ("Watch Loans") was EUR 75m. Watch

Loans are subject to intensified credit monitoring. The need for transfer of Watch Loans to credit impaired loans (default) (stage 3) is assessed on the basis of criteria that are included in the Bank's internal guidelines. The decision-making process relating to transfer, and thus for assessing the need for additional risk provisions in accordance with methods to be applied to defaulted financial instruments, requires a significant degree of discrectionary decision making.

We refer to the notes of the consolidated financial statements/Risk management/Credit risk/Credit risk analyses.

Given the importance for the consolidated financial statement and the significant degree of discretionary decision making regarding identification and evaluation of risk factors responsible for the transfer of Watch Loans to the Workout Management Department, we identified the recoverability of the watch loans as a key audit matter.

**Our Response**
We evaluated design, implementation and operating effectiveness of the key controls regarding the process for identifying and evaluating the risk factors for transfer of Watch Loans to the Workout Management Department. We evaluated the appropriateness of discretionary decision making in connection with the transfer of Watch Loans to the Workout Management Department for a sample of Watch Loans.

**Other Information**
Management is responsible for the other information. The other information comprises all information in the consolidated non-financial statement, which we obtained prior to the date of this auditor's report, and the annual report (but does not include the consolidated financial statements, the consolidated management report and our auditor's report thereon), which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. With respect to the information in the consolidated management report beyond the consolidated non-financial statement we refer to the section "Report on the Audit of the Consolidated Management Report".

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements**
Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON THE AUDIT OF THE CONSOLIDATED MANAGEMENT REPORT

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements. The consolidated non-financial statement included in the consolidated management report is not subject to our audit; our respective responsibilities are described in the section "Other Information".

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

**Opinion**
In our opinion, the consolidated management report are prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a UGB and is consistent with the consolidated financial statements.

**Statement**
In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidate financial statements, we have not identified material misstatements in the consolidated management report.

### OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS ACCORDING TO ARTICLE 10 OF REGULATION (EU) NO 537/2014

We were appointed by the annual general meeting on February 27, 2017 and commissioned by the supervisory board on February 27, 2017 to audit the consolidated financial statements for the financial year then ending December 31, 2018. We have been auditing the Group uninterrupted since the financial year ending December 31, 1992.

We confirm that our opinion expressed in the section “Report on the Audit of the Consolidated Financial Statements” is consistent with the additional report to the audit committee referred to in Article 11 of Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 and that we remained independent of the Group in conducting the audit.

**Engagement Partner**
The engagement partner responsible for the audit is Mr. Thomas Becker.

Vienna, February 18, 2019

**Deloitte Audit Wirtschaftsprüfungs GmbH**

**Thomas Becker m.p.**
Certified public accountant

**ppa Christoph Tiefenböck m.p.**
Certified public accountant

The consolidated financial statements baring our audit opinion may only be published or transmitted in the version certified by us. This audit opinion relates exclusively to the complete German-language consolidated financial statements, and operational and financial review. The provisions of section 281 (2) Austrian Business Code apply to other version

# REPORT OF THE SUPERVISORY BOARD

In 2018 the Supervisory Board discharged the duties incumbent upon it by virtue of the law and the articles of association, and was kept regularly informed by the Management Board on the course of business and the state of the Bank's and the Group's affairs.

The accounts and records, the **2018 annual financial statements, and the operational and financial review** of HYPO NOE Landesbank für Niederösterreich und Wien AG, to the extent that it discusses the 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 2018, and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board, and hereby approves the 2018 annual financial statements in accordance with section 96(4) Aktiengesetz (Austrian Companies Act).

The auditors Deloitte Audit Wirtschaftsprüfungs GmbH audited the **2018 consolidated financial statements** for compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, as applicable in the EU, and the Group operational and financial review for compliance with the Austrian Business Code. The audit gave rise to no objections and the auditors found that the statutory requirements had been fully met. In the opinion of the auditors, the consolidated financial statements give a true and fair view of the assets and finances of the Group as at 31 December 2018, and of its earnings and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the EU, and the additional requirements of section 59a Banking Act. The auditors hereby confirm that the Group operational and financial review is consistent with the consolidated financial statements, such that the statutory requirements for exemption from the obligation to prepare consolidated financial statements according to Austrian law are fulfilled, and issue an unqualified audit certificate. The Supervisory Board has concurred with the audit findings.

St. Pölten, 28 February 2019
The Supervisory Board

**Günther Ofner**
Chairman

# LIST OF ABBREVIATIONS

| | |
|---|---|
| ABGB | Allgemeines bürgerliches Gesetzbuch (Civil Code) |
| AC | amortised cost |
| AFS | available for sale |
| AG | Aktiengesellschaft (stock corporation) |
| ALM | Asset Liability Management |
| AMM | additional liquidity monitoring metrics |
| Art. | Article |
| BCBS | Basel Committee on Banking Supervision |
| BCM | business continuity management |
| bn | billion |
| bp | basis points |
| Brexit | British exit |
| BWG | Banking Act |
| CCF | credit conversion factor |
| CDS | credit default swap |
| CEE | Central and Eastern Europe |
| CEIR | credit-adjusted effective interest rate |
| CF | cash flow |
| CHF | Swiss franc |
| COREP | common solvency ratio reporting |
| CRD | Capital Requirements Directive |
| CRR | Capital Requirements Regulation |
| CSA | credit support annex |
| CSC | current service cost |
| CTM | critical terms match |
| CVA | credit valuation adjustment |
| DBO | defined benefit obligation |
| DVA | debt valuation adjustment |
| EAD | exposure at default |
| EAR | exposure at risk |
| ECB | European Central Bank |
| ECF | expected cash flow |
| ECL | expected credit loss |
| EIR | effective interest rate |
| EL | expected loss |
| ESA | European System of Accounts |
| EU | European Union |
| EUR | euro |
| EUR '000 | thousand euro |
| EURIBOR | Euro InterBank Offered Rate |
| EWU | EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft |
| FLG | Federal Law Gazette |
| FMA | Austrian Financial Market Authority |
| FV | fair value |
| FVO | fair value option |
| FVOCI | fair value through other comprehensive income |
| FVTPL | fair value through profit or loss |

# LIST OF ABBREVIATIONS

| | |
|---|---|
| FX | foreign exchange |
| GmbH | Gesellschaft mit beschränkter Haftung (private limited company) |
| HETA | Heta Asset Resolution AG |
| HFT | held for trading |
| HIBH | HYPO NOE Immobilien Beteiligungsholding GmbH |
| HQLA | high quality liquid assets |
| HTM | held to maturity |
| HVS | HYPO NOE Versicherungsservice GmbH |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IBOR | Interbank Offered Rate |
| ICAAP | Internal Capital Adequacy Assessment Process |
| ICS | internal control system |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| IFRS IC | IFRS Interpretations Committee |
| INT | interest cost |
| IPRE | income-producing real estate |
| IRRBB | interest rate risk in the banking book |
| ISDA | International Swaps and Derivatives Association |
| IT | information technology |
| LAC | liabilities at cost |
| LAR | loans and receivables |
| LCR | liquidity coverage ratio |
| LGD | loss given default |
| LIBOR | London Interbank Offered Rate |
| LTIP | long-term incentive plan |
| m | million |
| MREL | minimum requirement for own funds and eligible liabilities |
| N/A | not applicable |
| NID | NOE Immobilien Development GmbH |
| No. | number |
| NPL | non-performing loan |
| NR | not rated |
| NSFR | net stable funding ratio |
| OCI | other comprehensive income |
| OCR | overall capital requirement |
| OeNB | Oesterreichische Nationalbank |
| OIS | overnight index swap |
| OLS | ordinary least squares |
| OpRisk | Operational risk |
| OTC | over the counter |
| p.a. | per annum |
| PD | probability of default |
| PiT | point in time |
| POCI | purchased or originated credit impaired |
| RICO | Risk Management Committee |
| ROE | return on equity |
| RWA | risk weighted assets |
| S&P | Standard & Poor's |

| | |
|---|---|
| SFR | stable funding ratio |
| SIC | Standing Interpretations Committee |
| SME | small or medium-sized enterprise |
| SPPI | solely payments of principle and interest |
| SREP | supervisory review and evaluation process |
| thsd | thousand |
| TSCR | total SREP capital requirements |
| TTC | through the cycle |
| UGB | Unternehmensgesetzbuch (Austrian Business Code) |
| VaR | value at risk |

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The cover shows a view of the Semmeringbahn railway.

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The forecasts and forward-looking statements contained in this annual report are based on current estimates and information available at the time it was compiled. They should not be taken as a guarantee that results expressed in forecasts and forward-looking statements will actually occur; actual results are subject to risks and other factors, and could therefore differ materially from results contained in forecasts or forward-looking statements. The Group is not obliged to update its forecasts and forward-looking statements.

The German version of this annual report is definitive. The English version is a translation of the German annual report. Formulations referring to people are intended to be gender-neutral.

Photo: picturedesk.com/Rainer Mirau

# Otten-stein

## RUGGED BEAUTY

Less than a 40km drive from the charming Wachau valley, the landscape surrounding the Ottenstein reservoir is completely different, defined by the dark forests and rocking stones of the northern Waldviertel. Anyone exploring the tributaries around the reservoir on foot or in a hired electric boat will find bathing spots as well as little natural wonders – flowering mosses, toadstools and brightly coloured butterflies. Food fans can enjoy freshly caught fish, often cooked with local wild herbs such as ground elder and sorrel.

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