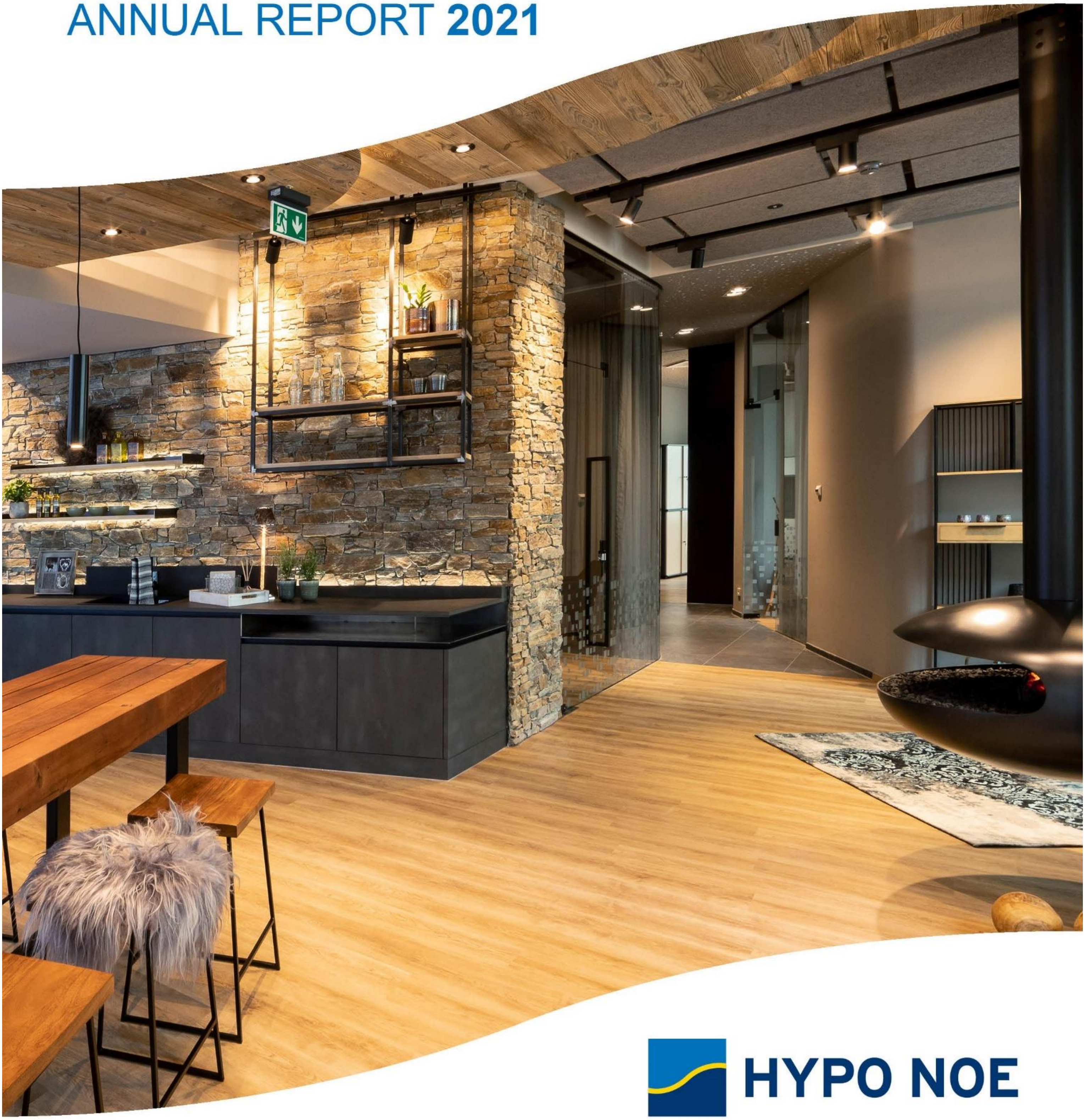
ANNUAL REPORT **2021**



CURRENT RATINGS

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

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

ISS ESG: C+ Prime status sustainability rating

GROUP FINANCIAL HIGHLIGHTS

EUR ’000

Consolidated statement of comprehensive income	2021	2020
Net interest income	140,334	129,153
Administrative expenses	-101,465	-104,844
Impairment losses on financial assets – IFRS 9 ECL	-10,679	-20,438
Profit before tax	**54,228**	**41,156**
Income tax expense	-12,373	-9,281
Profit for the year	**41,855**	**31,876**
Return on equity before tax	7.44%	5.91%
Cost/income ratio	52.14%	53.29%
Consolidated statement of financial position	**31 Dec. 2021**	**31 Dec. 2020**
Total assets	16,763,250	16,416,615
Financial assets – AC	14,053,484	13,230,957
Financial liabilities – AC	14,920,835	14,274,540
Equity (incl. non-controlling interests)	747,344	710,362
NPL ratio	0.85%	0.78%
Regulatory indicators	**31 Dec. 2021**	**31 Dec. 2020**
Eligible Tier 1 capital	729,622	691,311
Total eligible capital	729,622	691,311
Minimum capital requirement (Pillar I)	301,609	308,546
Excess equity	428,013	382,765
Total risk exposure amount in accordance with Art. 92(3) CRR	3,770,117	3,856,823
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	19.35%	17.92%
Total capital ratio in accordance with Art. 92(2)(c) CRR	19.35%	17.92%
Leverage ratio in accordance with Art. 92(2)(d) CRR	4.88%	4.71%
LCR	202.45%	199.56%
NSFR	120.40%	115.91%
Operational resources	**31 Dec. 2021**	**31 Dec. 2020**
Employees	630	714
Branches	27	27

Further information regarding the change in the number of employees as at year-end can be found in Note 5.2 Net other operating income.
For details of the calculation see section 3.2 Earnings performance.

FOREWORD BY THE SUPERVISORY BOARD

For a second year in succession, the coronavirus pandemic left the Austrian and global economies, and above all people and politicians, facing myriad problems. As a result, in 2021 HYPO NOE focused on pursuing its risk-aware business model, building on its strengths and combining bespoke consultation with digital services to ensure its customers continued to have access to the best possible services at this challenging time. Thanks to its unswerving dedication, the HYPO NOE Group continued to serve as a reliable banking partner for its customers throughout.

Putting the coronavirus pandemic aside for a moment, 2021 brought numerous positive developments in terms of our business strategy. Chief among these were digitalisation and sustainability measures in HYPO NOE's core business: the green product line – one green current account, three green savings accounts and a green mortgage – will give the Group's customers the opportunity to conduct their banking activities in accordance with the principles of sustainability and environmental protection. The green current account and green savings account have been certified in line with the standards set out under the Austrian ecolabel for sustainable financial products. Deposits are invested exclusively in projects that support UN Sustainable Development Goals 7, 9, 11 and 13. Elsewhere, the online wohnrechner.at tool was extended and now includes a renovation function that allows customers to calculate the costs of their home improvement projects in just a few clicks. At the same time, the service works out the reduction in carbon emissions, as well as the amount of money that can be saved by the planned upgrades.

Sustainability does not only play a major role in HYPO NOE's core business. In autumn last year, the Bank officially signed up to the Federal Climate Action Ministry's **klimaaktiv Pakt 2030**. Under the terms of the programme, the Bank has committed itself to halving its CO_2 emissions by 2030, compared with 2005. Progress in this area will be assessed annually.

Leading sustainability ratings agencies confirm HYPO NOE's commitment to hitting its environmental, social and governance goals, with Vigeo Eiris (V.E) awarding the Group above-average scores in spring. With a "robust" assessment from V.E, HYPO NOE was given top marks among the nine organisations evaluated in the Austrian retail and specialised banking sector. HYPO NOE also reported an improvement in its Sustainalytics rating. The score of 22.9 ranked it among the top 15% in its peer group (Diversified Banks) at the time of the assessment.

In 2021 the Supervisory Board was involved in all fundamental decisions, supervised the Management Board in accordance with legal requirements and provided it with guidance relating to the management of the Group. Through its plenary and committee meetings, and reports from the Management Board, the Supervisory Board was able to obtain a timely and comprehensive picture of the relevant economic and financial developments affecting the HYPO NOE Group.

The Group's positive performance and its ability to build on robust corporate foundations in the 2021 financial year are attributable to the implementation and refinement of its successful FOKUS25 corporate strategy. By virtue of their mutual support, the HYPO NOE Group and its sole owner, the State of Lower Austria, both benefit from their relationship. Due to its long-term approach, the State supports the Bank's continued expansion, while the Group works to ensure consistent dividend income and growth in the Bank's value.

2021 would not have turned out to be such a successful year without the tireless commitment and outstanding work of our employees. The Supervisory Board would like to express its gratitude to all employees and to the Management Board for their contribution.

Günther Ofner

Chairman of the Supervisory Board

FOREWORD BY THE MANAGEMENT BOARD

2021 once again saw people, businesses and politicians around the world facing a major challenge. The coronavirus and the global pandemic continued to have a huge impact on people's day-to-day lives and on business activities. For the HYPO NOE Group, the 2021 financial year was shaped by a focus on providing our customers with the best possible support as they found their way through the crisis: by helping them navigate the various relief measures in place and continuing to optimise our already comprehensive range of online services.

Despite the difficult global climate, the HYPO NOE Group can look back on a very good year. Profit for the year amounted to EUR 41.9m compared with EUR 31.9m a year earlier.

Once again, core earnings were at the heart of the strong results reported in 2021: "Net interest income" increased by 8.66% to EUR 140.3m (2020: EUR 129.2m), and "Net fee and commission income" grew by 8.6% to reach EUR 18.9m (2020: EUR 17.4m). At the same time, "Administrative expenses" fell by 3.2%, leading to a fall in the cost/income ratio (CIR) to 52.14% (2020: 53.29%).

The cornerstone of this strong performance is our FOKUS25 organisational development programme and the associated reinforcement of HYPO NOE's core competences, including financing for social infrastructure, for real estate finance ranging from family homes to commercial premises and non-profit housing construction, as well as for corporates. This kind of infrastructure and housing finance, which has always been highly resistant to external influences throughout the economic cycle, accounts for around four-fifths of our balance sheet. Financing for housing in particular profited from an uptick in demand during the coronavirus pandemic, as lots of people took the decision to invest in larger apartments, houses, gardens and home offices during the various lockdowns. Combined with state-of-the-art web services such as the recently released wohnrechner.at tool, HYPO NOE scored highly thanks to the consulting skills of its relationship managers in the residential housing construction sector.

HYPO NOE has been a sustainability pioneer for many years. Accordingly, 2021 was again shaped by key developments and endeavours in this field, including – first and foremost – participation in the Climate Ministry's klimaaktiv Pakt 2030 alongside ten other Austrian companies. Under the agreement, we have made a commitment to cut CO_2 emissions at the Group by half by 2030 compared with the baseline values reported in 2005. Annual assessments and ongoing improvements to operational measures, as well as raising awareness of issues among staff and customers will help to achieve the goals set out under the pact while also increasing transparency at the Group.

For HYPO NOE, acting sustainably goes beyond implementing active climate protection measures by identifying ways to reduce our own environmental footprint. Specifically, our core business is chiefly concerned with financing projects that add value to communities, such as social and municipal infrastructure or affordable housing. Our strict inclusion and exclusion criteria provide the point of departure for initiating business contacts. Subject to regular review, they are continuously brought into line with the latest climate protection standards. Our portfolio of sustainable products grew during the reporting period: after the issue of our first ever green bond in 2020, the range of green products was extended in 2021 to include a green current account, three green savings accounts and a green mortgage, all of which give our customers different options when it comes to managing their banking activities more sustainably.

The green current account allows customers to choose which of two sustainability projects they would like to support. Deposits in our green current account and green savings accounts are invested exclusively in projects that support attainment of UN Sustainable Development Goals 7, 9, 11 and 13. Compliance with these rules is strictly monitored, since our current account and saving products are also certified in accordance with the Austrian ecolabel for sustainable financial products. The green mortgage introduces various opportunities for buyers and renovators: if the heating energy requirement of the prospective property falls below a specific threshold or a renovation project brings about a significant increase in a building's thermal performance, green mortgage customers will be rewarded with lower fees.

We also added a sustainability function to our wohnrechner.at tool in 2021. The online portal now calculates how much a renovation project will cost and gives details of the corresponding potential reduction in CO_2 emissions. The new function combines the tried-and-tested features of the Wohnrechner – from a customisable cost overview to household expenditure calculator – with the new renovation project functionality. Property renovations can now be planned using a multiplicity of details from facade insulation, window replacement or installing solar panels. At the press of a button, users can contact a customer advisor at a HYPO NOE branch and arrange an appointment to discuss the parameters for a mortgage based on the data submitted online at wohnrechner.at. This is just one example of how outstanding digital services go hand in hand with face-to-face appointments at our branches.

The project to convert our branches to special “feelgood” branches continued at pace in 2021. Opened in May, our flagship branch in Vienna’s first district has six individually designed meeting rooms with a living-room feel, offering space for customer consultations in an even more comfortable, relaxed atmosphere. The newly renovated Mödling branch reopened at the end of October. Besides the feelgood factor, sustainability played a central role in both of these redesigns. Energy efficient technology was installed, and recycled floors and eco-friendly wall paint were used in the refurbishment.

What’s more, our sustainability efforts have also attracted the attention of various respected sustainability rating agencies. Vigeo Eiris (V.E) awarded us above-average scores in spring 2021: its “robust” assessment means HYPO NOE was given top marks among the nine-strong peer group in the Austrian retail and specialised banking sector, and the second-highest rating out of all 14 banks evaluated by V.E in Austria. In February 2021, HYPO NOE reported yet another improvement in its Sustainalytics rating. The score of 22.9 ranked it among the top 15% in its peer group (Diversified Banks) at the time of the assessment. Our issuer rating likewise remains stable at a high level: Standard & Poor’s again awarded the Bank a solid single A rating with a stable outlook.

All in all, HYPO NOE was able to play to its strengths once more in 2021 despite the difficult operating environment. We will continue to systematically enhance our strategic focus in line with FOKUS25 in 2022, and along with all of our employees we will work hard to position HYPO NOE as Austria’s leading bank for infrastructure, housing construction and corporates.

Wolfgang Viehauser and Udo Birkner

ANNUAL REPORT

for the year ended 31 DECEMBER 2021

Annual Report HYPO NOE Group

GROUP OPERATIONAL AND FINANCIAL REVIEW

for the year ended 31 DECEMBER 2021

1 ECONOMIC CLIMATE

1.1 Global economic and financial market trends

Although the pandemic continued to dominate the news in 2021, its influence on the economy and financial markets weakened markedly. The development and production of effective vaccines, which were successively approved by health authorities in many countries towards the end of 2020, was a major milestone in the battle against Covid-19. However, in the course of 2021 it became clear that use of vaccines alone would not be sufficient for the pandemic to end and the virus to become endemic. The reasons for this lie mainly in the mutations of the virus – principally the Delta and Omicron variants – and the comparatively high levels of vaccine hesitancy among parts of the population. The Omicron variant, which was not designated as “of concern” by the World Health Organisation (WHO) until November, had become the dominant coronavirus strain in many countries by the end of the year. In the space of a few weeks this particularly infectious mutation lifted the new infection figures to record levels, even in countries with high vaccination rates.

The recovery of the world economy after the severe downturn of the previous year was not regionally synchronised, but was largely in line with the prevailing expectations at the outset of 2021. In its autumn outlook, the International Monetary Fund (IMF) put global economic growth in 2021 as a whole at 5.9% (2020: contraction of 3.1%). While the Chinese economy was the fastest growing at the start of 2021 it lost steam noticeably in the course of the year, whereas the US economy staged a continuous and very rapid recovery. The eurozone economy was slow off the mark due to the stuttering start to the vaccination process, steep second and third infection waves, and resultant government measures. Following a brief recession at the turn of 2020/2021, the economy took off in the spring, registering quarter-on-quarter growth of 2.2% in both the second and third quarters. Due to the fourth wave and the emergence of the Omicron variant the eurozone lost momentum in the fourth quarter of 2021.

The historic highs in the business sentiment indicators for the manufacturing sector were not reflected in an equally strong run-up in industrial production. A plethora of problems affecting supply chains, and in particular a shortage of microchips, held output back significantly. Never in the history of business surveys had such a high proportion of companies – across almost all sectors – reported that they were suffering from supply bottlenecks of all kinds. In particular, according to Statista, the chip shortage led to a slump of about 24% in car sales in the pandemic-blighted year of 2020, and a further slight decline in 2021. While order books continued to fill up, reaching all-time highs, it was impossible to fulfil orders rapidly, meaning that delivery times kept lengthening. At year-end 2021 the industrial production index was still below pre-pandemic levels.

Personal consumer demand performed better. According to a regular European Commission survey, by mid-2021 consumer confidence almost returned to the record level seen in 2017, only to diminish in the second half due to the fourth wave and high inflation. The high excess savings piled up in 2020, a strong employment market and periodic relaxation of Covid-19 measures pumped up consumer demand for both goods and services. According to Eurostat, retail revenue climbed throughout the year, with year-on-year growth reaching 7.7% in November. This statistic averaged about 5% over 2021 as a whole.

The eurozone labour market fared better than expected. Employment returned to its pre-pandemic level in September 2021. This meant that the situation in Europe was better than that in the USA, where at the end of 2021 there were still some 3.5 million fewer people (excluding agriculture) in employment than at the beginning of 2020. The unemployment rate in the eurozone shrank steadily over the year, to stand at 7.3% in October – just 0.2% above the low reported at the start of 2020 (sources: USA: Bureau of Labor Statistics; eurozone: Eurostat). There are labour shortages in many industries, particularly as concerns skilled workers and specialists. Unemployment is expected to hit new lows in the coming months.

The downside of the rapid recovery of the world economy became apparent in the course of 2021. Not only did total debt continue to mount, but inflation reached levels that would have been unthinkable only a short time before. Besides adverse base and other abnormal statistical effects, such as the introduction of carbon pricing and the extension of temporary value added tax reductions, a massive run-up in prices at all levels was driven by problems with global supply chains, and shortages of raw materials, freight capacity and microchips. In particular, climbing energy prices – autumn saw the onset of an exponential surge in natural gas prices – pushed up the cost of many products. These problems persisted until the end of 2021, and of late there has been no prospect of a rapid respite. As a result, the inflation rate hit 5% in the eurozone (Eurostat) and 6.8% in the USA (Bureau of Labor Statistics) in December.

The central banks have yet to react to the unexpectedly sharp rise in consumer prices. For a long time they presumed that the rise in inflation would turn out to be a passing phase, meaning that there was no need for immediate action. Only when it became apparent in the autumn that inflation was continuing to escalate and wage pressure was steadily intensifying did the central banks change course. Faced with persistently high inflation, the prospect of another strong economic performance in 2022, and tightening labour markets, the Bank of England (BoE) and the US Federal Reserve (Fed) are under particularly strong pressure to act. The BoE responded with an initial 15 basis point interest rate increase in December. The Fed announced that its asset purchase programme would be terminated at the end of March 2022, and signalled up to three interest rate increases over the year. Action is less imperative for the European Central Bank (ECB) than for its Anglo-Saxon counterparts, and the bank's leeway is more restricted because of the incompleteness of economic and fiscal union. Nevertheless the ECB, too, now seems to be preparing players in the real economy and the financial markets for an end to its loose monetary policy. In December 2021 the ECB Governing Council decided that the Pandemic Emergency Purchase Programme (PEPP), launched to combat the economic fall-out from the pandemic, was to be discontinued at the end of March 2022. However, it also agreed an extension of and temporary increase in the Asset Purchase Programme (APP). Though the change in direction of the European Union's monetary policy has been relatively slow in coming, here, too, an end to the long era of extremely cheap money is on the cards.

2021 was another excellent year for the financial markets. Buoyed by strong economic growth and corporate profits, as well as consistent support from fiscal policy and the central banks' monetary policies, most of the major stock indices recorded double-digit rises. The bond markets also benefited from these trends, although the gains were significantly lower. The big winners of 2021 were the commodity markets, with the exceptions of gold and silver. Meanwhile, the digital asset market continued to build firm foundations, considerably expanding its capitalisation, but the price swings in this niche segment remained exceptionally wide. Government bonds and other safe bonds did less well. With interest rates moving in a relatively narrow range for much of the year, but suffering further sharp falls during the summer, the renewed advance at the end of the year nevertheless spelt a worsening in overall performance for bond investors. Due to rock-bottom interest rates at the start of the year, even a moderate interest rate increase was enough to bring losses. Higher inflation pushed real interest rates in many currency areas to historic lows, greatly detracting from the attractiveness of bonds.

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

1.2.1 Austria and Germany

2021 was overshadowed by the obdurate coronavirus pandemic, in the shape of further infection waves. Nevertheless, the economies of Austria and Germany – the HYPO NOE Group's core markets – began to pick up in the second quarter. In its December forecast, the Oesterreichische Nationalbank (OeNB) predicted rises in real gross domestic product (GDP) for 2021 of 4.9% for Austria and 2.5% for Germany (eurozone average: 5.1%). After a decline in output in the first quarter there was an extremely strong rebound from the start of April through to the end of October 2021, which moderated in the fourth quarter due to tougher Covid regulations. Significant raw material and energy price increases, global supply bottlenecks and growing labour shortages led to an upturn in inflation, and tighter supply and capacity.

The Austrian economic recovery was manifested in higher export volumes (up 10.5%), as well as stronger household consumer confidence (up 1.8%) and business investment confidence (capital investment up 5.7%) year on year. Housing investment grew again, advancing by 2.9% in 2021. The savings rate contracted from 14.3% to 9.6%. Unemployment according to the national definition used by the AMS (Public Employment Service Austria) fell by 1.9 percentage points to 8.2%. In November 81,805 people were subject to the short-time working scheme, which has been extended on several occasions. This was 81% less than the peak number to date, recorded in February 2021. The tourism industry registered another year-on-year decline in overnight stays – this time by 36.6%.

According to the OeNB the budget situation improved on the previous year, due to higher tax revenue, although a budget deficit of 5.9% of GDP is still forecast for 2021, reflecting the continued need for countercyclical support and additional pandemic-related costs. Public debt is expected to run at a virtually unchanged 82.7% of GDP. In Germany the picture is similar, with a budget deficit of 6.6% and a public debt ratio of 71.8% of GDP. The indebtedness of both households and non-financial businesses in the HYPO NOE Group's core market is still below the eurozone averages.

1.2.2 Federal states

The Austrian federal states where exports and industry account for the highest shares of GDP did best, while the recovery lagged in those that are heavily dependent on tourism due to a 2020/2021 winter season that was hamstrung by restrictions. According to a forecast published by UniCredit Research in June 2021, growth is set to range from 2% in Tyrol to 4.1% in Upper Austria, with Lower Austria in the upper mid-range at 3.5%. The Institute for Advanced Studies (IHS) outlook released in October 2021 sees the recovery in Lower Austria lifting growth to 4.8% in 2021.

The pandemic again hit state budgets in the period under review, with many state governments recording net fiscal deficits and increased overall debt. However, the deficits are likely to come in below those of 2020, as the revenue shares distributed to state governments were higher due to stronger growth. Following an increase of 12% in the aggregate financial liabilities of all states to EUR 26.3bn in 2020, internal estimates point to a further rise to EUR 28bn in 2021. Managing the health and economic crisis is still the main focus of all state government policies, and the stability pact targets are on ice for now.

1.3 Banking sector trends in the eurozone

The Covid-19 pandemic posed big challenges for the global economy, and consequently for the banking sector, too. Particularly at the European level, the banking sector – supported by ECB measures and government stabilisation programmes – played a key role by providing liquidity for businesses and combating the macroeconomic impact of the pandemic. The regulatory measures taken in response to the 2008 global financial crisis have enhanced the sector's resilience in the face of potential crises.

The OeNB continues to vouch for the robustness of the Austrian banking sector's business model, as it stressed in its November 2021 financial stability report. The average equity ratio (CET1) of 16.1% as at 30 June 2021 confirms that Austrian banks are well placed to withstand adverse developments. The non-performing loan (NPL) ratio improved from 2.2% at the end of 2020 to 1.9% in June 2021. The reduction in risk provisioning brought a marked increase in the pre-tax profits of the country's banking sector in the first half of 2021. This trend is likely to persist in the second half. The sector's solid equity base continues to exert a stabilising influence.

Austria's banks are also benefiting from past restructuring efforts. In the course of an extended consolidation process, the number of banks (main institutions) has fallen by around a quarter since 2012. Although this process has slowed of late, it is likely to continue across Europe.

The prevailing low-interest-rate environment continued to pose a challenge for the entire European financial sector, and is likely to persist over the next few years. The equity ratios of financial institutions in the European Union have recently stabilised at high levels. Another influential trend seen during the year under review was the ongoing digitalisation of customer products and services. The multi-channel approaches – which in the case of universal banks still feature branches, albeit augmented by digital offerings – remained the customary strategy in Europe.

2 COMPANY PROFILE

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

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

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

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

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

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

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

1In terms of total assets (2020 consolidated financial statements) and date of establishment

3 FINANCIAL REVIEW

3.1 Highlights

- Increase of 31.76% in "Profit before tax" to EUR 54.2m (2020: EUR 41.2m)
- Solid foundations due to strong core earnings: "Net interest income" up by 8.66%, and "Net fee and commission income" by 8.60% year on year
- "Administrative expenses" down 3.22% year on year, CIR at 52.14% in the period under review compared with 53.29% a year earlier
- NPL ratio of 0.85% as at 31 December 2021 (31 Dec. 2020: 0.78%),
  risk provisions (ECL) in the performing loan portfolio at a solid 137 bps as a proportion of RWA
- CET1 ratio above the target level and the previous year (17.92%) as at year-end 2021, at 19.35%

3.2 Earnings performance

		31 Dec. 2021	31 Dec. 2020
Return on equity before tax	Profit before tax/avg. consolidated equity	7.44%	5.91%
Return on equity after tax	Profit for the period/avg. consolidated equity	5.74%	4.57%
Cost/income ratio	Operating expenses/operating income	52.14%	53.29%
NPL ratio	Carrying amounts of non-performing financial assets – AC (excl. banks)/financial assets – AC (excl. banks)	0.85%	0.78%

The HYPO NOE Group reported "Profit before tax" of EUR 54.2m in 2021 (2020: EUR 41.2m), and the return on equity (ROE) was 7.44% (2020: 5.91%). These results reflect the continuing successful implementation of the HYPO NOE Group's FOKUS25 strategy, which is geared towards boosting profitability through organic growth in the core business, while also taking into account the Group's conservative risk profile and strong capital profile.

This latest rise in core earnings laid the foundations for another improvement in the Group's results. "Net interest income" increased by 8.66% to EUR 140.3m (2020: EUR 129.2m), and "Net fee and commission income" grew by 8.60% to reach EUR 18.9m (2020: EUR 17.4m). The growth in lending was the main reason behind the improvement in "Net interest income", while higher "Net fee and commission income" reflected stronger contributions from the securities and payments businesses.

The disposal of HYPO NOE First Facility GmbH in the second quarter of 2021 was the final step towards achieving the Group structure targeted under the FOKUS25 strategy. As a result, the HYPO NOE Group's structure has now been significantly streamlined.

"Administrative expenses" fell from EUR 104.8m to EUR 101.5m. The completion of restructuring of the real estate services business had a positive impact in this regard, as did the end to financial stability contribution payments. However, this was offset primarily by a marked increase in the resolution fund and deposit insurance fund contributions.

Risk provisions in the performing loan portfolio (Stage 1 and 2) went up to EUR 51.8m at 31 December 2021 – an increase of 53.69% on the pre-crisis level reported at year-end 2019. Total risk provisions (Stages 1-3) reached EUR 91.6m at the end of the reporting period, which was 18.04% higher than at 31 December 2019, before the outbreak of the coronavirus pandemic.

Cost/income ratio

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

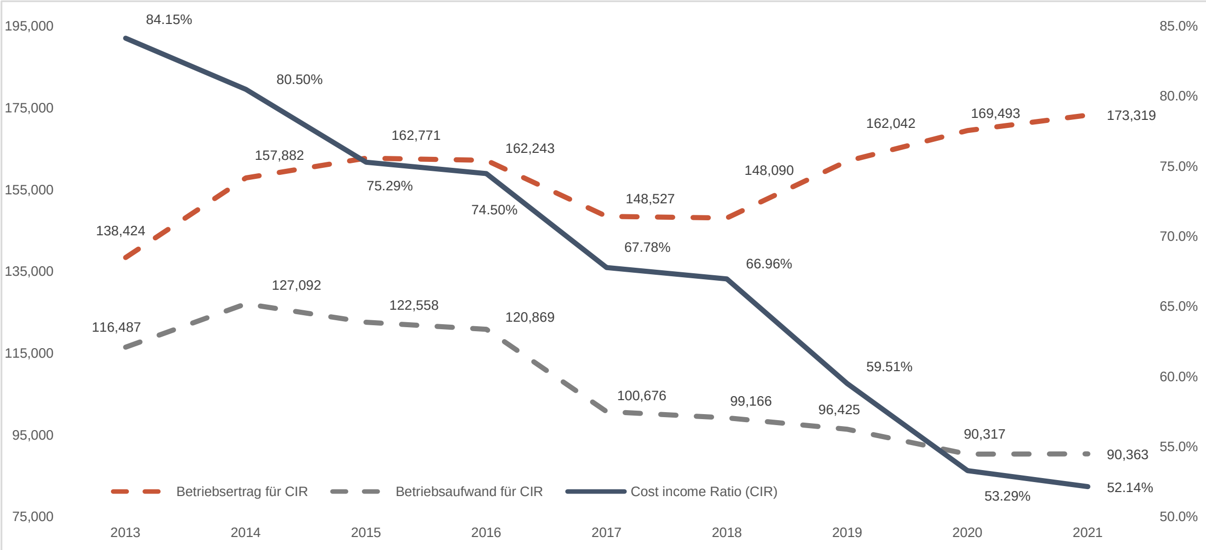
Operating expenses are based on the figure for "Administrative expenses", and in 2021, as in the previous year, these were adjusted for the following exceptional, non-recurring components: (1) the contribution to the resolution fund; (2) the contribution to the deposit insurance fund. The instalment of the financial stability contribution (3) was spread over the years 2017-2020, operating expenses were adjusted accordingly during this period, and the instalment was no longer payable in 2021.

Operating income is composed of "Net interest income", "Net fee and commission income", "Net gains or losses on financial assets and liabilities", "Net other operating income" and "Net gains or losses on investments accounted for using the equity method". In 2021, as in the previous year, it excluded the following exceptional, non-recurring components: (1) valuation of the HETA contingent additional purchase price (see also Note 4.7 Fair value disclosures); and (2) the additional allocation to the provision for negative interest rates on corporate loans (see Note 6.2 Provisions).

EUR '000	2021	2020
Net interest income	140,334	129,153
Net fee and commission income	18,862	17,369
Net gains or losses on financial assets and liabilities	-1,352	3,926
Net other operating income	5,322	11,752
Net gains on investments accounted for using the equity method	3,207	4,237
Extraordinary effects	6,945	3,055
Operating income	**173,319**	**169,492**
Administrative expenses	101,465	104,844
Extraordinary effects	-11,102	-14,527
Operating expenses	**90,363**	**90,317**
CIR	**52.14%**	**53.29%**

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

CIR since 2013*



*Retrospectively adjusted, as described above

3.3 Balance sheet movements

New loans totalling around EUR 1.74bn were extended to customers in 2021. This exceeded the highly satisfactory performance a year earlier (EUR 1.71bn), and provided customers with vital funding during the pandemic, in particular for infrastructure projects, housing construction and corporate finance. The Group also gave effective support in the sale of subsidised homebuilding loans from the State of Lower Austria, in the form of a bidding platform, which clearly underlines the HYPO NOE Group's expertise when it comes to consultation on and execution of complex public-sector transactions. As a result, financial assets grew by about 4%, to EUR 14.9bn. This increase had a significant effect on financial assets recognised at amortised cost (AC), which now account for 94% of total financial assets, compared with 92% at the end of 2020. Financial assets measured at fair value through profit or loss (FVTPL) were further reduced during 2021, and now make up only 1% of total financial assets. This will enable the Group to keep earnings fluctuations resulting from measurement effects within strict limits.

Total liabilities as at 31 December 2021 amounted to EUR 16.8bn, a year-on-year increase of 2.11%. Financial liabilities, the largest component, rose by EUR 646m – this was due to growth in bonds issued and a slight rise in demand and time deposits. The latter item includes deposits from banks in connection with the sale of homebuilding loans subsidised by the State of Lower Austria. The HYPO NOE Group issued three benchmark bonds in 2021 (a senior unsecured bond, an issue from the public sector cover pool, and a covered bond). These issues were an impressive sign of the Group's excellent and, above all, uninterrupted access to the capital markets. Holdings from participation in the ECB's TLTRO III tender programme were increased slightly in the middle of the year.

Non-performing loan (NPL) ratio

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

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

EUR ’000	31 Dec. 2021	31 Dec. 2020
Financial assets – AC (excl. banks)	13,110,725	12,199,975
Non-performing loans	111,883	95,418
NPL ratio	**0.85%**	**0.78%**

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

3.4 Segment performance

The Group continued its strong performance in 2021, posting a gain in “Profit before tax” of EUR 13.07m to EUR 54.23m (2020: EUR 41.16m). The operating segments all contributed to this very satisfying result, as explained below.

Public Sector

The HYPO NOE Group’s core competences include developing custom financing solutions and delivering banking services to state governments, local and regional authorities, and public agencies. Segment profit for the year rose from EUR 19.3m in 2020 to EUR 24.1m in the period under review. This reflects the success of the Group’s positioning as an adviser of public-sector and government-linked customers. The segment has responded effectively to the increased pressure on margins in its low-risk lines of business by enhancing efficiency, as reflected in reduced administrative expenses. In contrast to the previous year, measurement effects from derivatives contracts with customers had a negative impact on net gains on financial assets and liabilities. However, the segment reported higher operating profit, which was reflected in “Net interest income”, “Net fee and commission income” and “Net other operating income”. A successful property transaction by a segment entity accounted for using the equity method also contributed to the profit for the year.

Segment assets and liabilities rose, mainly as a result of the successful sale of subsidised homebuilding loans from the State of Lower Austria, which highlights the HYPO NOE Group’s expertise when it comes to consultation and execution of complex public-sector transactions.

Real Estate

The services provided by the Real Estate segment are a key pillar of the HYPO NOE Group’s business model, and the service portfolio was given a sharper focus during 2021. Following the completion of restructuring activities, the Real Estate Services segment was dissolved in the first half of the year. Units belonging to the segment that were retained within the Group for strategic reasons are now assigned to the Real Estate segment.

The segment’s profit for the year remained virtually unchanged during the reporting period, at EUR 18.0m (2020: EUR 18.2m).

The disposals of HYPO NOE Real Consult GmbH (in 2020) and HYPO NOE First Facility GmbH (in Q2 2021) in the course of the restructuring process played a part in the drop in “Net other operating income” and “Administrative expenses” compared with the previous year. A gain of EUR 0.9m was recognised on the disposal of HYPO NOE First Facility GmbH.

In addition, there was a year-on-year decrease of EUR 2.2m in penalties for early repayments, which is recognised under “Net other operating income”, and a reduction in “Net gains on investments accounted for using the equity method”.

The predominantly non-operating effects described above were more than offset by a substantial increase in net interest income due to the segment’s successful financing operations. Besides this strong performance, cost-efficient operations are another key success factor for the segment.

Deteriorations in individual customers' creditworthiness weighed on "Impairment gains/losses on financial assets – IFRS 9 ECL", as the segment reported a net loss for this item of EUR 10.3m in 2021.

Retail and Corporate Customers

The Retail and Corporate Customers segment also performed well, with profit before tax of EUR 4.8m, a strong turnaround on the loss of EUR 3.3m a year earlier. This improvement mainly resulted from a let-up in the risk situation, which was severely impacted by the outbreak of the Covid-19 pandemic in 2020. This easing in comparison to the previous year had a positive effect on net gains on financial assets and liabilities and on the "Impairment losses/gains on financial assets – IFRS 9 ECL" item.

The segment saw a decrease in net interest income compared with 2020. This was mainly due to the focus on core products and on risk-aware new lending in the corporate customers business. Retail and Corporate Customers was the principal contributor to Group "Net fee and commission income", generating EUR 14.7m (2020: EUR 13.2m). The segment's contribution grew during the reporting period compared with the previous year, when it was particularly hard hit by the Covid-19 pandemic from the second quarter onwards due to a fall-off in face-to-face consultation as well as to customers' financial difficulties, and was also substantially higher than in 2019. Segment administrative expenses in 2021 were negatively affected by a one-time increase in the contribution to the deposit insurance fund.

Treasury & ALM

Thanks to proactive liquidity management, interest rate risk positioning within strict limits and the exploitation of existing money market opportunities – in particular the TLTRO III programme, for which the ECB adjusted the terms in the course of the Covid-19 pandemic – the segment recorded a considerable upturn in net interest income to EUR 36.0m (2020: EUR 27.7m).

The Treasury & ALM segment reported a net loss on financial assets and liabilities of EUR 2.7m in the period under review (2020: net gains of EUR 3.9m). This resulted primarily from fluctuations in net gains on hedges as well as currency valuations for derivatives in the HFT portfolio, which gave rise to a net loss of EUR 2.5m (2020: net gain of EUR 0.9m), which were offset by currency valuations reported under net other operating income.

The segment completed three benchmark issues in 2021 (two covered and one senior preferred bond), which underlined the capital markets' positive perception of HYPO NOE Landesbank's as an issuer.

3.5 Equity

Under Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR) as amended, including latterly Regulation (EU) No 2020/873, and related EBA delegated regulations as well as the directive on access to the activity of credit institutions (Capital Requirements Directive, CRD) as amended by Directive (EU) No 2019/878, which is currently being transposed by way of the Austrian *Bankwesengesetz* (Banking Act) and various national orders, since 2014 it has been necessary to determine banks' consolidated own funds and their consolidated regulatory own funds requirements in accordance with IFRS, as well as the regulatory scope of consolidation.

Consolidated eligible capital in accordance with the CRR/CRD as amended was EUR 729.6m as at 31 December 2021 (31 Dec. 2020: EUR 691m).

Excess equity excluding buffers stood at EUR 428.0m as at 31 December 2021 (31 Dec. 2020: EUR 383m), compared with a capital requirement of EUR 301.6m (31 Dec. 2020: EUR 309m). 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 19.35% as at 31 December 2021 (31 Dec. 2020: both ratios 17.92%).

Application of all of the modifications to the calculation of the own funds requirement relevant to the Group, which were progressively introduced by Regulations (EU) No 2019/876 and No 2020/873 (CRR II), became mandatory for the first time as of 30 June 2021. These mainly include:

- Recasting of the SME supporting factor created by Article 501 CRR
- Replacement of the mark-to-market method by the standardised approach for counterparty credit risk, under Article 274ff CRR
- The reintroduction of the transitional arrangements for zero weighting of exposures to central governments that are denominated in the currency of another member state (Article 500[a] CRR)

The arrangements for a new own funds deduction in accordance with Article 36(1)(m) CRR were also applicable. The prudential backstop reduced CET1 and hence eligible capital by approx. EUR 0.37m as at the reporting date. However, this effect is fully offset by lower deductions from intangible assets and the conservative treatment of assets measured at fair value.

Leverage ratio

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

In accordance with the derogation under Article 429a(1)(n) CRR, the total risk exposure reported was reduced by EUR 1,392.2m. In connection with this derogation, the HYPO NOE Group must comply with an adjusted leverage ratio of 3.04% pursuant to Article 429a(7) CRR. The comparative figures as at 31 December 2020 take this derogation into account and include an item of roughly the same amount (EUR 1,433.7m). At year-end 2020, the transitional provisions under Article 500b CRR, which did not contain an adjusted minimum ratio but regulated the actual amount of the limit under the derogation, were in effect.

	31 Dec. 2021	31 Dec. 2020
Tier 1 capital	729,622	691,311
Total leverage ratio exposure	14,940,070	14,676,161
Leverage ratio in accordance with Art. 92(2)(d) CRR, %	**4.88%**	**4.71%**
Leverage ratio requirement (Pillar 1)	3.04%	3.00%

Liquidity coverage ratio

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

EUR '000	31 Dec. 2021	31 Dec. 2020
Liquidity buffer	1,693,679	1,756,777
Net liquidity outflow	836,573	880,354
LCR	**202.45%**	**199.56%**

Net stable funding ratio

The net stable funding ratio (NSFR) is designed to limit liquidity maturity transformation risk. The ratio helps to reduce dependence on short-term refinancing by safeguarding medium-to-long-term stable funding. The NSFR is reported on a quarterly basis and is integrated into the Group's planning processes.

EUR '000	31 Dec. 2021	31.12.2020 *
Stable funding requirement	11,179,631	11,371,400
Available stable funding	13,460,728	13,180,597
NSFR	**120.40%**	**115.91%**

*The NSFR as defined by the CRR II was first reported on 30 June 2021. Previously, the notional NSFR was calculated in accordance with the CRR I. Assumptions were made to compensate for any details not governed by the regulations.

4 HUMAN RESOURCE MANAGEMENT

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

Deriving centralised measures from the outcomes of the employee survey conducted at the end of 2019 and implementing the defined action areas were once again the focus of human resource management activities during the year. Another employee survey was carried out in autumn 2021. The excellent feedback received confirms the effectiveness of our measures and initiatives.

As a responsible employer, the HYPO NOE Group pays particularly close attention to safeguarding the health and wellbeing of its employees. The Group is committed to building a positive, respectful and appreciative work climate for all employees, one 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.

4.1 Human resources in 2021: facts and figures

At year-end 2021 the HYPO NOE Group had 630 employees (2020: 714), 27 of whom were on parental leave (2020: 26). The difference is mainly due to the disposal of HYPO NOE First Facility GmbH. The workforce of 630 comprised 330 male and 300 female employees (2020: 407 male and 307 female). In terms of full-time equivalents (FTE), there were 552.7 employees at year-end (2020: 639.3). Excluding non-active employees, the headcount falls to 522.1 FTE as at 31 December 2021 (2020: 608.3).

The table below shows the changes in headcount over time.

	2021							2020						
	HC			Avg. HC p.a.	FTE			HC			Avg. HC p.a.	FTE		
	Total	m	f	Total	Total	m	f	Total	m	f	Total	Total	m	f
HYPO NOE Landesbank für Niederösterreich und Wien AG	597	316	281	595.8	524.3	302.0	222.3	595	318	277	589.7	528.0	305.1	222.9
HYPO NOE Real Consult GmbH	-	-	-	-	-	-	-	-	-	-	16.5	-	-	-
HYPO NOE Leasing GmbH	28	9	19	28.3	23.4	8.4	15.0	28	10	18	28.8	24.0	9.4	14.6
HYPO NOE First Facility GmbH	-	-	-	28.9	-	-	-	86	74	12	88.8	82.8	72.8	10.0
HYPO NOE Versicherungs-service GmbH	4	4	-	3.5	4.0	4.0	-	3	3	-	3.8	3.0	3.0	-
HYPO NOE Immobilien Beteiligungs-holding GmbH	1	1	-	1.0	1.0	1.0	-	2	2	-	2.0	1.5	1.5	-
HYPO NOE Group	**630**	**330**	**300**	**657.6**	**552.7**	**315.4**	**237.4**	**714**	**407**	**307**	**729.6**	**639.3**	**391.8**	**247.5**

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

4.2 Organisational and staff development

Core tasks of the Human Resources Department include finding the right candidates, with appropriate qualifications, to fill vacancies, integrating them into the organisation, identifying and realising their potential, and helping them to develop new skills. Organisational and staff development activities during the reporting period were predominantly shaped by the FOKUS25 organisational development programme, as well as the values and management principles formulated as part of the process.

In 2021 the annual staff appraisals were replaced by digital performance and development interviews. Besides providing an opportunity to pinpoint development and career opportunities, these discussions are also used to review performance over the past year and agree targets for the year ahead. The development agreements indicate specific training needs, and in turn training offers suited to given target groups are developed. Besides specialist training, personality development is a high priority at the HYPO NOE Group. There are a large number of courses available on subjects such as communication, health and team building.

In a logical next step for the Group's development activities, it launched the new HYPO NOE Leadership Development Programme in cooperation with the LIMAK Austrian Business School in September 2021. The programme's make-up is closely aligned to Focus 25 and the HYPO NOE Group's values, management principles and leadership competencies.

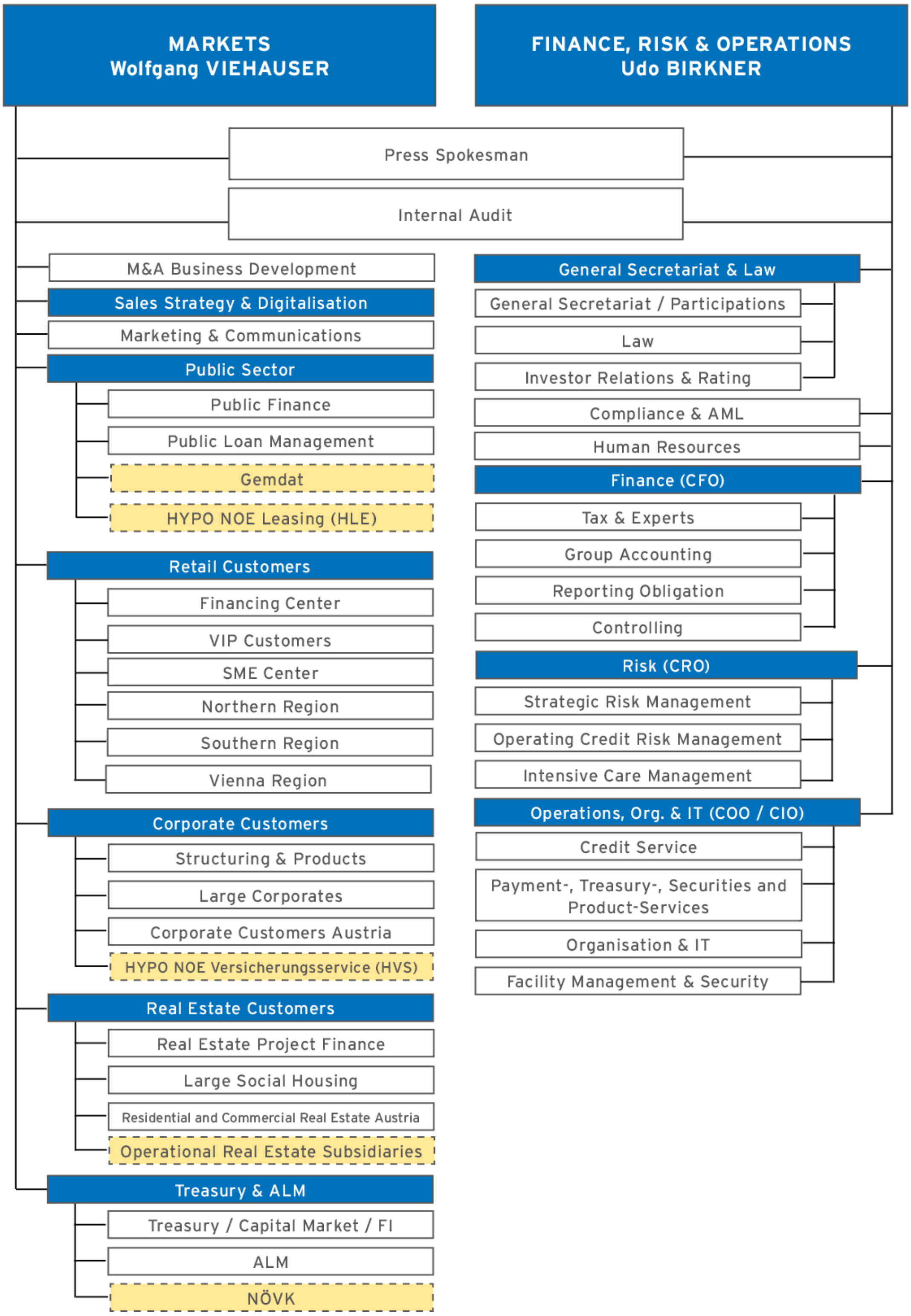
The Leadership Development Programme comprises the Core Stream for new managers and managers who have yet to complete any HYPO NOE management training, as well as the Advanced Stream for experienced managers, department heads and leadership high potentials. Both of these training programmes are accompanied by an open selection of elective modules for all managers which cover current management topics.

The HYPO NOE Mentoring Programme was introduced in 2021 to help integrate new employees more effectively. Mentors receive professional support and guidance from the HR Department. Key instruments include an introductory talk to prepare them for their mentorship role as well as regular meetings where they can compare notes. Additional training opportunities including interview techniques, communication skills and remote mentoring round out the mentorship programme.

The launch of the Masterplan e-learning platform helped to bring digitalisation to life for the Bank's employees. It represents a major step in terms of contemporary training and enables users to participate whenever and wherever it suits them. Following an objective selection process, 50 HYPO NOE Group employees were given the opportunity to acquire practical experience in a number of areas including digital corporate culture, new work and innovative working methods. The introduction of the platform was part of the 2021 transformation project and involved interdepartmental collaboration between Human Resources and the Digitalisation unit.

In addition to the HYPO 1 and HYPO 2 banking foundation qualifications, technical training focused on the expert HYPO 3 private finance course, all of which were hosted remotely in 2021.

The organisational chart at 31 December 2021 was as follows:


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

4.3 Human Resources Department’s sustainability mission

The HYPO NOE Group is committed to helping its staff to recognise and avoid health risks. To help implement targeted measures, an evaluation of psychological stress factors among employees was carried out in 2021. Based on the findings, substantive opportunities were pinpointed in a series of workshops designed to improve day-to-day working conditions.

The Group uses a variety of measures to counter the risk of stress and overwork. For instance, a free employee assistance service is available to all staff. This includes anonymous coaching and advice on professional and personal matters. The *Körpersignale und Stress* employee seminar was again a fixture in the Department’s annual training programme. This helps participants recognise personal stress patterns and develop individual approaches to coping with stressful situations.

The compatibility of work and family has always been a vital consideration at the HYPO NOE Group. In order to continuously improve its family-friendly HR policies in a sustainable and structured manner, the Group underwent a berufundfamilie audit in 2020 and has remained committed to implementing the catalogue of measures identified during the process.

The frauen@hyponoe (women@hyponoe) network was established in 2021. Its objective is to help female employees to achieve their career goals with a view to bringing about a better balance between men and women in leadership roles.

5 RISK REPORT

Descriptions of the objectives and methods of risk management, and details of material risks are contained in Note 8 Risk Management.

6 RESEARCH AND DEVELOPMENT

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

7 EQUITY INVESTMENTS AND BRANCH OFFICES

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

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

HYPO NOE Landesbank had 27 branches in Lower Austria and Vienna as at 31 December 2021.

8 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (ICS)

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

8.1 Control environment

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

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

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

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

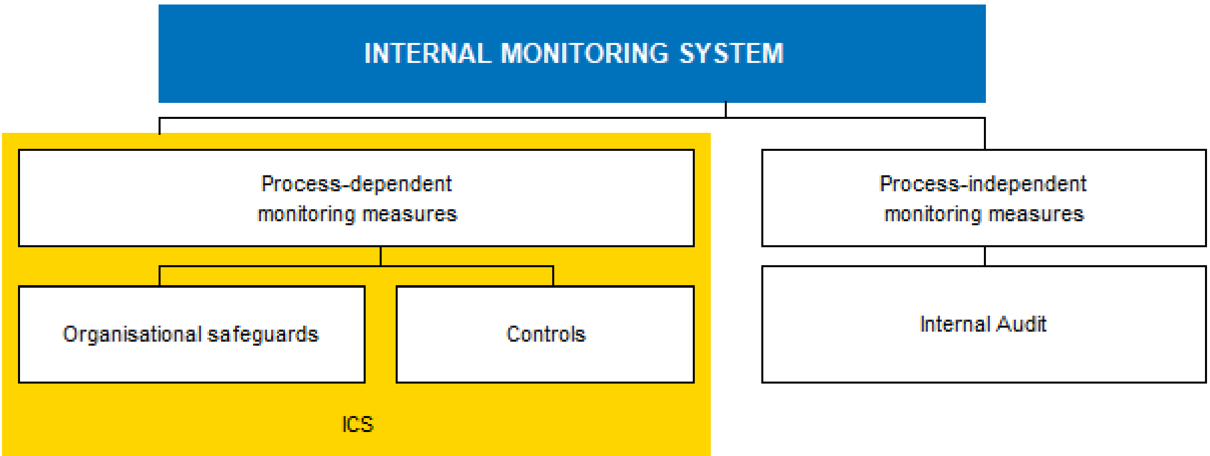
8.2 Risk assessment

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

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

8.3 Control measures

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



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

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

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

The following primary control measures are carried out:

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

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

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

- Employment of the Group's assets
- Recording all information required to draw up the annual financial statements, in order to prevent unauthorised purchases and sales
- Risk-based decision-making authorities and monitoring instruments which could have a material impact on the annual financial statements
- Tailoring the chart of accounts to the Group's specific requirements
- Storage of vouchers according to systematic and chronological criteria, providing an adequate audit trail

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

8.4 Information and communication

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

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

8.5 Monitoring

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

As part of the process-independent measures, internal auditing is clearly distinct from the ICS. All internal audit activities are subject to Group-wide standards based primarily on the Austrian Banking Act, the FMA Minimum Standards for Internal Auditing as amended and international best practice. The independent Internal Audit Department regularly reviews compliance by the various departments and other organisational units with the internal and external regulations. In 2021, the audits carried out in Accounting/Group Accounting focused on credit services for asset/clearing accounts and expense accounts, process organisation and reporting.

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

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

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

9 GROUP NON-FINANCIAL STATEMENT

Pursuant to section 267a Austrian Business Code, the HYPO NOE Group is obliged to prepare a consolidated non-financial statement. Under section 243b Austrian Business Code, the parent company HYPO NOE Landesbank für Niederösterreich und Wien AG is also required to prepare such a statement. The disclosures are published in consolidated form below. The non-financial statement was prepared in accordance with the Austrian *Nachhaltigkeits- und Diversitätsverbesserungsgesetz* (Sustainability and Diversity Improvement Act; sections 243b and 267a of the Austrian Business Code). The HYPO NOE Group has published a sustainability report drawn up in accordance with the GRI Standards since 2014. Starting this year, this sustainability report will be published as part of the HYPO NOE Bank & Land Investor Relations & ESG Journal. A copy of the report and other related information can be found on the HYPO NOE website.

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

9.1 Description of the business model

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

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

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

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

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

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

[2]In terms of total assets (2020 consolidated financial statements) and date of establishment

9.2 Sustainability in the Group's core business

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

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

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

9.2.1 Products and services

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

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

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

In 2021, the HYPO NOE Group launched its green current and savings accounts for retail customers, which are likewise certified in accordance with the Austrian UZ 49 ecolabel for sustainable financial products. Deposits in green current and savings accounts are earmarked for financing of sustainable energy and municipal infrastructure projects, or projects designed to combat climate change. The framework for HYPO NOE's green accounts can be found on the website.

In autumn 2021 HYPO NOE unveiled its first green mortgage. This is available to retail customers looking to buy, build or renovate property, provided that the project meets specific energy efficiency targets. In addition to enjoying the sustainability and energy efficiency gains associated with their projects, customers can also expect to pay lower contract fees for their mortgage agreement, if any.

9.2.2 Partners and sustainable investments

With regard to sustainable investment, the HYPO NOE Group works with partners that enable it to offer environmentally sound and ethical investments in selected funds. The Group has organised a series of training courses and product information events in collaboration with other companies, in order to make sustainable investment opportunities more accessible to a wider audience. In 2021, sales employees received additional training on key aspects of the upcoming clarification and disclosure requirements for sustainable finance. Investment in sustainable funds exceeded EUR 67m at the end of the 2021 financial year.

9.2.3 Initial application of the EU taxonomy

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

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

For the first time, the HYPO NOE Group assessed its entire loan and securities portfolio on the assets side to determine which financing can be allocated to the supercategories in accordance with the EU Delegated Regulation supplementing Regulation (EU) 2020/852 (Taxonomy Regulation).

Financing activity and, in turn, the allocation of funds was a central element of this assessment. When monitoring for taxonomy eligibility, it must be determined whether a financing activity is in principle covered by the economic activities defined in the EU Delegated Regulation and, accordingly, has the potential to qualify as an economically sustainable activity.

In a first step, HYPO NOE Group determined that at the customer level the ÖNACE code does not include actual financing activity for a large part of the portfolio and is therefore only partially suitable as a tool for establishing eligibility. This chiefly applies to lending to public sector borrowers whose customer sectors are not included in the categories of the taxonomy, but where the financed economic activities may very well be included in it.

To determine whether an actual financing activity is environmentally sustainable, the HYPO NOE Group can draw on information that has already been obtained as part of the review of loans for green bond suitability. During this process, the purpose of financing extended for the items assessed was recorded at account level in the core banking system in the form of sustainability categories, which show the actual use of funds. The following step-by-step procedure was used for these evaluations:

- Portfolio or sub-portfolio analysis according to account groups and types
- Case-by-case analysis of financing descriptions for specific business areas assessable within the system
- Manual case-by-case assessment based on financing information from the loan application
- Determination of financing purposes according to customer industry (ÖNACE)

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

Items outside the loan portfolio (such as the nostro portfolio and money market accounts) are mapped onto the corresponding supercategory of the EU Delegated Regulation solely using the ÖNACE code at the customer level.

On the basis of the analysis process outlined here, examination of the loan and securities portfolio for taxonomy eligibility shows that, as a proportion of the Group's total assets, 57.1% can be classified as eligible and 42.9% as non-eligible.

The volume of loans that qualify for taxonomy eligibility and total consolidated assets are adjusted in accordance with Article 7 to determine the individual percentages.

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

Article 10(3)

- Item: Trading portfolio (share 0.0%)
- Item: short-term interbank loans (share 0.04%)

Article 7

- Exposures to states (share 3.6%)
- Exposures to central banks (share 8.3%)
- Exposures to supranational issuers (share 0.4%)
- Derivatives (share 2.8%)
- Exposures to undertakings that are not obliged to publish non-financial information (share 1.3%)

Exposures to undertakings that are not obliged to publish non-financial information are determined according to the following assumptions and precautionary principles. To begin with, borrowers that meet the Basel criteria for the corporate customers segment and which have more than 500 employees were identified. Next, it was determined which of these customers had taxonomy-eligible loans with the HYPO NOE Group. This amount was deducted from the total taxonomy-eligible lending in the corporate customers portfolio and the corresponding risk exposures determined in accordance with Article 7.

The HYPO NOE Group operates a small trading book in accordance with Article 94 CRR II. No transactions were concluded in the small trading book in 2021, meaning that no disclosures could be made regarding adjustments to assets held for trading in accordance with Annex XI of the EU Delegated Regulation supplementing the Taxonomy Regulation ([EU] 2020/852).

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

9.3 Environment

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

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

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

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

HYPO NOE Landesbank is also a partner of the klimaaktiv building and refurbishment programme, which supports construction and renovation of housing association developments.

9.3.1 Focus on energy efficiency

HYPO NOE's St. Pölten headquarters was built in accordance with the klimaaktiv silver building standard with a strong focus on energy efficiency. In one such example, part of the building's electricity demand is met with green power generated by its own solar array, which produced over 15,000 kWh of zero-emission power in 2021. There are plans to extend the system's capacity in 2022. The Group's innovative, low-energy head office has received the klimaaktiv silver award, as well as Green Building certification from the EU. Like all of the HYPO NOE Group's offices and branches, the headquarters only uses renewable electricity.

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

9.3.2 Climate-friendly mobility

Reducing emissions from transportation is one of the cornerstones of the HYPO NOE Group's environment and climate strategy. Inspired by the goal of creating the "vehicle fleet of the future", the HYPO NOE Group slashed CO_2 emissions from passenger vehicle transport by more than 81% between 2015 and 2021. The number of company cars in the Group fleet was cut my more than two thirds over the same period. The new car policy specifically promotes the acquisition of low-emission company cars, sending out a clear signal with strict CO_2 limits. The number of e-vehicles in the fleet – currently seven – will also be increased.

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

9.4 Social and employee-related matters

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

9.4.1 Principles and guidelines for equitable collaboration

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

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

9.4.2 Training and development

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

In 2021, HYPO NOE Group employees completed a total of 2,600 days of training (2020: 1,438 days). Staff training and development is a leading priority for the Group, with an emphasis on enhancing professional expertise as well as personal development, management development and teambuilding. A comprehensive leadership program was introduced in 2021 to enhance the management culture and improve leadership skills.

9.4.3 Health management

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

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

In 2021 a survey about stress in the workplace and working from home was conducted. The findings were used to draw up a desk sharing plan that was implemented in autumn 2021. All work stations are equipped with height-adjustable desks to ensure ideal workplace ergonomics for each individual.

The Group uses a variety of measures to counter the risk of stress and overwork. For instance, a free employee assistance service is available to all staff. This includes anonymous coaching and advice on professional and personal matters.

The health of its employees is paramount for the HYPO NOE Group. As such, numerous preventive measures were implemented during the year to provide the best possible protection against coronavirus infection while continuing the Bank's day-to-day operations. Employees have been taking advantage of the opportunity to work from home for a number of years. Uptake of this working model has increased significantly since the outbreak of the coronavirus pandemic and is now open to all employees. Internal and external appointments have been replaced by video calls and telephone conferences. Protective Plexiglas screens have been installed at bank branches.

9.4.4 Disabled accessibility/access to financial services

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

9.5 Respecting human rights

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

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

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

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

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

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

The Group has established an internal feedback and complaints database, into which staff must enter all customer complaints. These are analysed on a regular basis, included in the ombudsman's report and evaluated for relevance to compliance issues. This approach helps to minimise the risk of compromising customer privacy as far as possible. There were no significant complaints or breaches related to the handling of customer data in 2021.

9.6 Anti-corruption and anti-bribery measures

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

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

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

9.6.1 Organisational structure

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

9.6.2 Internal compliance codes

Internal compliance codes are regularly reviewed and updated by their authors and cover the entire Group, where necessary. In particular, new regulations and legislative changes 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

9.6.3 Raising awareness within the Group

The Group has adopted clear internal anti-corruption guidelines and this area forms an integral part of its compliance rules. New employees are obliged to complete an online compliance and anti-money-laundering training course within four weeks of joining the Group. All new employees also receive face-to-face training as part of their induction. All current employees must also complete this training at regular intervals. Anti-corruption policy is a core topic in the compliance training, and anti-corruption principles and recommendations are collated and published internally in the HYPO NOE Group Anti-corruption Guidelines. In 2021 all HYPO NOE Landesbank employees participated in mandatory compliance courses (annual refresher courses). These courses are intended to raise staff awareness of securities and anti-money-laundering compliance and regulatory matters, with the goal of minimising the risk of breaches of statutory requirements or internal standards. There were no such compliance-related violations during the reporting period.

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

The relevant internal processes must be kept up to date at all times and are optimised on an ongoing basis. Any amendments are implemented as quickly as possible. Under these processes, all invitations to third-party events must be registered and added to the internal event schedule. Compliance is determined using a defined traffic light system. There were no confirmed incidents of corruption in 2021.

9.7 Management of sustainability risks

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

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

Clear exclusion, positive and negative criteria mitigate sustainability risks associated with lending. Taking physical and transitory sustainability risks into account in the lending process has already been implemented as part of the strategy for identifying, measuring, evaluating and managing sustainability risks. In addition, negative impacts of extreme weather events are analysed as part of the annual Bank-wide stress test.

Indicator/description	Unit	2021	2020	2019	2018
HYPO NOE GROUP					
ENVIRONMENTAL INDICATORS – carbon footprint[1]					
Material consumption (paper)[2]	kg CO_2-e	8,527	16,060	17,064	14,470
Electricity[3]	kg CO_2-e	-	-	-	-
District heating	kg CO_2-e	172,972	129,762	174,233	247,688
Gas heating	kg CO_2-e	88,019	93,835	106,198	140,775
Passenger vehicle transport – total	kg CO_2-e	84,417	165,822	280,456	328,627
Flights	kg CO_2-e	4,963	1,269	26,983	44,872
Rail		141	326	1,335	3,323
Total CO_2-e[4]	**kg CO_2-e**	**359,039**	**407,075**	**606,269**	**779,755**
CO2-e/employee[5]	**kg CO_2-e**	**567**	**570**	**817**	**988**

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

Group CO_2 data by scope					
SCOPE 1: Heating energy (gas) and vehicle fleet	kg CO_2-e	172,435	259,657	386,654	469,402
SCOPE 2: Electricity and heating energy (district heating)	kg CO_2-e	172,972	129,762	174,233	247,688
SCOPE 3: Flights, rail and paper	kg CO_2-e	13,632	17,656	45,382	62,665

Indicator/description	Unit	31 Dec. 2021	31 Dec. 2020	31 Dec. 2019	31 Dec. 2018
HUMAN RESOURCE INDICATORS					
Total employees	Head count	630	714	742	789
Female	Head count	300	307	317	344
Male	Head count	330	407	425	445
Managers by level					
Management Board	Head count	2	2	2	2
Management level 1	Head count	10	11	10	9
Management level 2	Head count	19	17	17	17
Management level 3	Head count	46	45	45	45
Proportion of women on the Management Board	%	0%	0%	0%	0%
Proportion of women on the Supervisory Board	%	33%	33%	25%	25%
Management Board, over 50 years old	%	100%	100%	100%	100%
Supervisory Board, 30-50 years old	Head count	2	4	3	5
	%	17%	33%	25%	42%
Supervisory Board, over 50 years old	Head count	10	8	9	7
	%	83%	67%	75%	58%

Indicator/description	Unit	31 Dec. 2021	31 Dec. 2020	31 Dec. 2019	31 Dec. 2018
Employment breakdown (excl. employees on parental leave)					
Full-time employees	Head count	428	513	523	549
Female	Head count	130	143	140	163
Male	Head count	298	370	383	386
Part-time employees	Head count	175	175	179	200
Female	Head count	145	139	141	144
Male	Head count	30	36	38	56
Employees by category (excluding parental leave)					
Managers	Head count	77	75	74	73
	%	13%	11%	11%	10%
Female	Head count	12	11	14	15
	%	16%	15%	19%	21%
Male	Head count	65	64	60	58
	%	84%	85%	81%	79%
Managers under 30 years old	Head count	-	-	-	-
	%	0%	0%	0%	0%
Managers 30-50 years old	Head count	47	50	51	47
	%	61%	67%	69%	64%
Managers over 50 years old	Head count	30	25	23	26
	%	39%	33%	31%	36%
Employees	Head count	526	613	628	676
	%	87%	89%	89%	90%
Female	Head count	263	271	267	292
	%	50%	44%	43%	43%
Male	Head count	263	342	361	384
	%	50%	56%	57%	57%
Under 30 years old	Head count	85	104	86	92
	%	16%	17%	14%	14%
Employees, 30-50 years old	Head count	298	351	378	421
	%	57%	57%	60%	62%
Over 50 years	Head count	143	158	164	163
	%	27%	26%	26%	24%

Indicator/description	Unit	31 Dec. 2021	31 Dec. 2020	31 Dec. 2019	31 Dec. 2018
New employees and staff turnover					
New employees	Head count	53	110	102	120
	%	8%	18%	16%	17%
Female	Head count	27	37	43	43
	%	51%	34%	42%	36%
Male	Head count	26	73	59	77
	%	49%	66%	58%	64%
Under 30 years old	Head count	26	57	43	43
	%	49%	52%	42%	36%
30-50 years old	Head count	22	44	49	66
	%	42%	40%	48%	55%
Over 50 years old	Head count	5	9	10	11
	%	9%	8%	10%	9%

Disposals	Head count	52	134	153	120
	%	7%	16%	17%	13%
Female	Head count	23	43	66	51
	%	44%	32%	43%	43%
Male	Head count	29	91	87	69
	%	56%	68%	57%	58%
Under 30 years old	Head count	18	33	37	28
	%	35%	25%	24%	23%
30-50 years old	Head count	19	65	79	64
	%	37%	49%	52%	53%
Over 50 years old	Head count	15	36	37	28
	%	29%	27%	24%	23%

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

Training					
Training days, total	Days	2,600	1,438	2,811	2,646

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

Sick leave					
Sick leave, total	Days	4,016	5,236	7,078	6,316
Average days of sick leave per employee	Days	6	7	10	8
Occupational accidents	Total	-	2	7	10

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

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

10 GROUP OUTLOOK

10.1 Economic environment

There is still a degree of uncertainty associated with the Covid-19 pandemic. Nevertheless, the economic stimulus programmes introduced in recent years will continue to have a positive effect on the global economy in 2022, so growth is expected to remain healthy and above the long-term average. The wide range of factors that led to a sharp increase in inflation in 2021 will probably have a reduced impact over the course of 2022, although inflation will stay relatively high in the first half of the coming year. This should mean that central banks will press on with their moves away from loose monetary policies.

The about-turn in central banks' monetary stance could pose challenges for the capital markets in the year ahead and suggests volatility moving forward. Ultimately, a constructive overall situation that is beneficial for both the world economy and corporate profits will prevail, paving the way for performance gains on most stock markets. Bond markets may be in for a tougher time once again, however, as interest rates look set to rise during 2022. Some rate rises were already priced in towards the end of 2021, so the scope for surprises should not be too great.

In view of the lockdown measures imposed in the fourth quarter of 2021, the OeNB predicts that Austrian GDP will grow by 4.3% next year, as pent-up demand spills over into 2022. This is roughly in line with the growth expectations for Germany and for the eurozone. The emergence of future waves of infections, the effects on the 2021/2022 winter holiday season, as well as supply and capacity bottlenecks are the main elements of uncertainty in this forecast.

In Austria's case, the anticipated level of economic growth in 2022 will be driven by an upturn in private consumption, capital investment and rising demand for exports. Economic performance is expected to return to 2019 – pre-crisis – levels in the first half of 2022. In Austria's federal states, bringing forward planned investments could help to mitigate the negative impact of the pandemic on the real economy and unemployment. The states' budget and debt positions could improve in the course of the coming year due to increased revenue shares as well as repayments from the federal government intended to cover additional costs incurred as a result of Covid-19.

10.2 Outlook for Group performance

In spite of the difficult operating environment, the HYPO NOE Group improved on the previous year's results with a strong earnings performance, which again underlined the resilience of its business model. Regardless of the economic cycle, demand in the Group's core infrastructure and housing finance businesses has remained solid during the crisis, so core operations are expected to put in a robust showing once more in 2022. In terms of the pandemic, uncertainty is set to persist, but the economy as a whole has proved to be significantly better placed to adapt to any potential lockdown measures than it was at the time of the Covid-19 outbreak. So far, economic forecasts for Austria and Germany – the HYPO NOE Group's core markets – have been fundamentally upbeat.

At present, the Group has not seen a marked increase in defaults due to the expiry of government support packages, and the level of payment deferrals was low at the end of 2021. That said, the Group will remain true to its prudent risk provisioning policy. It continues to apply comprehensive modelling of economic risk factors and potential effects of Covid-19 on the portfolio in its ECL models.

The HYPO NOE Group will carry on the systematic implementation of its tried-and-tested strategy in the coming reporting periods. The goal is to gradually increase profitability, in particular by means of organic growth in the core business, while at the same time maintaining a conservative capital and risk profile. Following successful completion of the restructuring of the former real estate services business in 2021, further efficiency measures are on the agenda. The emphasis will be on process optimisation and the concerted expansion of digital solutions, especially in mortgage lending.

Issuance in 2022 will centre on the covered bond and senior preferred segments, in line with the Bank's refinancing needs. The Bank is committed to maintaining a high level of deposits and ensuring a broadly diversified refinancing structure.

St. Pölten, 23 February 2022
The Management Board

Wolfgang Viehauser
Management Board Member
Markets and Speaker of the Board

Udo Birkner
Management Board Member
Finance, Risk & Operations

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

in accordance with IFRS
HYPO NOE Landesbank für Niederösterreich und Wien AG

1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Gains/losses

EUR '000	Notes	2021	2020
Interest and similar income measured using the effective interest method		253,020	250,022
Interest and similar income not measured using the effective interest method		178,336	187,197
Interest and similar expense		-291,080	-308,121
Dividend income		58	55
Net interest income	**4.2.1**	**140,334**	**129,153**
Fee and commission income		21,974	20,611
Fee and commission expense		-3,112	-3,242
Net fee and commission income	**5.1**	**18,862**	**17,369**
Net measurement gains or losses		-1,354	3,903
Net gains on derecognition of financial assets		2	23
Net gains or losses on financial assets and liabilities	**4.2.2**	**-1,352**	**3,926**
Other operating income	5.2	20,172	31,675
Other operating expense	5.2	-14,851	-19,922
Administrative expenses	5.3	-101,465	-104,844
Impairment losses on financial assets – IFRS 9 ECL	4.5.4	-10,679	-20,438
Net gains on investments accounted for using the equity method	10.3	3,207	4,237
Profit before tax		**54,228**	**41,156**
Income tax expense	7.1	-12,373	-9,281
Profit for the year		**41,855**	**31,876**
Non-controlling interests	3.2	-205	-163
Profit attributable to owners of the parent		**41,651**	**31,713**

Other comprehensive income

EUR '000	Notes	2021	2020
Profit for the year		**41,855**	**31,876**
Changes in valuation that will not be reclassified to profit or loss		**728**	**1,105**
Equity instruments – FVOCI		-24	-311
Actuarial gains	6.2.2	752	1,416
Changes in valuation that will be reclassified subsequently to profit or loss		**-1,131**	**-2,612**
Debt instruments – FVOCI		-945	-2,325
Debt instruments – FVOCI reclassified to profit or loss		-186	-359
Hedges (hedge accounting)	4.6.2	-	72
Other comprehensive income		**-403**	**-1,507**
Total comprehensive income		**41,452**	**30,369**
Non-controlling interests	3.2	-205	-163
Comprehensive income attributable to owners of the parent		**41,248**	**30,206**

2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

EUR '000	Notes	31 Dec. 2021	31 Dec. 2020
Cash and balances at central banks	4.3	1,409,248	1,463,942
Financial assets – HFT	4.3	310,574	417,189
Financial assets – mandatorily FVTPL	4.3	149,504	171,312
Financial assets – FVOCI	4.3	370,575	514,991
Financial assets – AC	4.3	14,053,484	13,230,957
Positive fair value of hedges (hedge accounting)	4.6.2	302,262	445,780
Investments accounted for using the equity method	10.3	33,692	31,074
Investment property	6.1	33,518	36,693
Intangible assets	6.1	197	241
Property, plant and equipment	6.1	65,942	65,475
Current tax assets	7.1	15,999	21,163
Deferred tax assets	7.3	352	408
Other assets	6.3	17,904	17,390
Total assets		**16,763,250**	**16,416,615**

Equity and liabilities

EUR '000	Notes	31 Dec. 2021	31 Dec. 2020
Financial liabilities – HFT	4.4	289,887	388,764
Financial liabilities – FVO	4.4	6,061	5,309
Financial liabilities – AC	4.4	14,920,835	14,274,540
Negative fair value of hedges (hedge accounting)	4.6.2	615,675	829,132
Provisions	6.2	76,862	69,367
Current tax liabilities	7.1	5,809	10,052
Deferred tax liabilities	7.3	22,297	22,853
Other liabilities	6.3	78,481	106,237
Equity	**3.1**	**747,344**	**710,362**
Equity attributable to owners of the parent	3.1	738,842	701,382
Non-controlling interests	3.2	8,501	8,980
Total equity and liabilities		**16,763,250**	**16,416,615**

3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

4 CONSOLIDATED STATEMENT OF CASH FLOWS

EUR ’000	31 Dec. 2021	31 Dec. 2020
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	1,463,942	235,481
Profit for the year (before non-controlling interests)	**41,855**	**31,876**
Adjustments for interest income and expense	-140,334	-129,153
Non-cash items from operating activities	**-68,734**	**97,733**
Amortisation, depreciation, impairment and write-ups on property, plant and equipment, intangible assets and investment property	5,958	6,593
Allocations to and reversals of provisions and risk provisions	19,740	22,961
Net measurement losses or gains on financial assets and liabilities	1,353	-3,903
Change in positive and negative fair value of hedging instruments	-87,987	47,365
Other adjustments	-7,798	24,717
Changes in assets and liabilities due to operating activities	**3,365**	**1,079,916**
Financial assets – AC	-814,705	-837,165
Financial assets – mandatorily FVTPL	26,449	58,635
Financial assets – FVOCI	143,149	101,557
Other operating assets	18,648	-27,431
Financial liabilities – AC	643,138	1,752,599
Other operating liabilities	-13,314	31,721
Payments for taxes, interest and dividends	**119,688**	**154,618**
Income taxes refunded/paid	-7,226	-7,232
Interest received	412,912	467,151
Interest paid	-286,676	-306,029
Dividends on FVOCI investments received	58	55
Dividends received from associates	620	670
Dividends received from joint ventures	-	3
CASH FLOWS FROM OPERATING ACTIVITIES	-44,160	1,234,990
Proceeds from sale of/redemption of:	**201**	**381**
Equity investments	92	41
Property, plant and equipment, intangible assets and investment property	109	340
Purchase of:	**-7,454**	**-2,415**
Equity investments	-32	-
Property, plant and equipment, intangible assets and investment property	-7,422	-2,415
Proceeds from disposal of subsidiaries	**1,477**	**291**
CASH FLOWS FROM INVESTING ACTIVITIES	-5,776	-1,743
Dividends paid	**-3,833**	**-3,500**
Repayment of lease liabilities	**-925**	**-1,286**
CASH FLOWS FROM FINANCING ACTIVITIES	-4,758	-4,786
NET INCREASE/DECREASE in cash and cash equivalents	-54,694	1,228,461
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,409,248	1,463,942

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021
in accordance with IFRS
HYPO NOE Landesbank für Niederösterreich und Wien AG

1 GENERAL INFORMATION

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

The Management Board approved the consolidated financial statements for publication on 23 February 2022.

1.1 Accounting standards

The consolidated financial statements of the HYPO NOE Landesbank für Niederösterreich und Wien AG Group (the HYPO NOE Group) for 2021 were prepared in accordance with the International Financial Reporting Standards (IFRSs) as applicable in the European Union pursuant to Regulation (EC) No 1606/2002 on the application of international accounting standards. The requirements of section 59a *Bankwesengesetz* (Austrian Banking Act) and section 245a *Unternehmensgesetzbuch* (Austrian Business Code) were fulfilled.

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2021 consist of the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes. The risk report, which contains disclosures pursuant to the provisions on the operational and financial review in section 267 Austrian Business Code, is part of the notes.

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

1.2 Significant accounting policies

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

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

1.3 Estimation uncertainty and judgements

Estimation uncertainties and judgements are denoted below by the symbol .

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

- Measurement of financial instruments, associates and joint ventures
- Assessment of the ECB's monetary policy measures (use of TLTRO instruments)
- Evaluation of the transfer of financial instruments in accordance with paragraph 3.2.4 IFRS 9
- Determination of impairment losses and gains on financial assets (detailed information on the impact of the Covid-19 pandemic can be found in Note 4.5 Credit risk and risk provisions)
- The definition applied of the term "default"
- Performance of SPPI tests
- Establishment of the principles governing the transfer of financial instruments (stage transfers)
- Assessment of inclusion in the scope of consolidation
- Recognition of deferred tax assets attributable to tax loss carryforwards
- Determination of fair value
- Determination of the useful lives of intangible assets, right-of-use assets, and property, plant and equipment
- Assessment of the effect of first-time application of new IFRS
- Recognition and measurement of provisions

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

1.4 New and amended standards

New and amended standards	Applicable from	Effect
Interest Rate Benchmark Reform: Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16	1 Jan. 2021	See details
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1 Jan. 2021	None
Covid-19-Related Rent Concessions – Amendment to IFRS 16	1 Apr. 2021	None
New and amended standards adopted but not yet applied		
Proceeds before Intended Use – Amendment to IFRS 16	1 Jan. 2022	None
Annual Improvements 2018-2020 Cycle	1 Jan. 2022	Immaterial
Onerous Contracts – Amendment to IAS 37	1 Jan. 2022	Immaterial
Reference to the Conceptual Framework – Amendment to IFRS 3	1 Jan. 2022	None
IFRS 17 Insurance Contracts	1 Jan. 2023	None
Classification of Liabilities as Current or Non-current – Amendment to IAS 1	1 Jan. 2023 *	None
Disclosure of Accounting Policies – Amendment to IAS 1	1 Jan. 2023 *	None
Definition of Accounting Estimates – Amendment to IAS 8	1 Jan. 2023 *	None
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendment to IAS 12	1 Jan. 2023 *	None

*Mandatory application not yet endorsed by the EU

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

The euro overnight index average (EONIA) benchmark rate, along with other reference rates, no longer meets the requirements of the EU Benchmarks Regulation, and it has therefore been replaced by the new euro short-term rate (€STR). This unsecured overnight refinancing rate for eurozone banks' dealings with financial market participants is 8.5 basis points lower than the EONIA. Following last year's adoption by the LCH and EUREX clearing houses of the €STR as the interest rate on cash collaterals posted for euro-denominated interest rate swaps, at the HYPO NOE Group bilateral contracts and credit support annexes (CSAs) were progressively adapted up to the end of 2021. Agreements with three contractual partners were amended in December 2021 to incorporate a "fallback" to €STR plus 8.5 basis points in accordance with the EONIA Fallbacks Protocol. The resulting measurement differences will be offset by compensation payments amounting to EUR 2,731thsd (31 Dec. 2020: EUR 401thsd). This will not have any material effects on the measurements reported in the HYPO NOE Group's consolidated financial statements.

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

The dedicated IBOR project team has prepared Group-wide analyses in cooperation with the operational departments concerned, identified potential risks associated with the transition to risk-free rates (RFRs), and made preparations for the adjustment of the reference values for the various financial instruments. The replacement of reference rates tied to the LIBOR will mainly have an impact on foreign-currency loans and derivatives. Further details are provided in Note 8.4.2 Interest rate risk in the banking book and Note 4.6 Derivatives and hedge accounting.

Financial instruments affected by the IBOR reform

The changeover will take place from 1 January 2022 with the next interest rate adjustment

Financial assets and liabilities	Previous tenor basis	New tenor basis	Spread adjustment, %	Carrying amount as at 31 Dec. 2021, EUR ’000
Financial assets – AC				
CHF loans	1M CHF LIBOR	SARON 1 month Compound (SAR1MC)	-0.0571	3,755
	3M CHF LIBOR	SARON 3 month Compound (SAR3MC)	0.0031	116,653
	6M CHF LIBOR	SARON 3 month Compound (SAR3MC)	0.0741	610
JPY loans	1M JPY LIBOR	1M TORF (term rate)	-0.02923	136
	3M JPY LIBOR	3M TORF (term rate)	0.00835	1,830
GBP loans	3M GBP LIBOR	3M ICE Term SONIA Reference Rate (TSRR3M)	0.1193	795
Financial assets – HFT				
Interest rate swaps	6M CHF LIBOR	SARON 3 month Compound (SAR3MC)	0.0741	2,064
Financial assets				**125,844**
Financial liabilities – HFT				
Interest rate swaps	6M CHF LIBOR	SARON 3 month Compound (SAR3MC)	0.0741	2,029
Financial liabilities				**2,029**

The three-month USD LIBOR reference rate can be applied at least until 30 June 2023 and the EURIBOR reference rate until 31 December 2025.

1.5 Currency translation

Significant accounting policies

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

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

2 SEGMENT INFORMATION

Significant accounting policies

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

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

Following the completion of restructuring activities, the Real Estate Services segment was dissolved in 2021. Units belonging to the segment that were retained within the Group for strategic reasons are now assigned to the Real Estate segment. In addition, investments accounted for using the equity method that were previously reported under Corporate Center have been reassigned to operating segments in the interests of optimising group management control. In accordance with paragraph 29 IFRS 8, the composition of reportable segments has also been adjusted for earlier periods.

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

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

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

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

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

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

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

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

Segmental analysis as at 31 December 2021, EUR '000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Group
Net interest income/expense	32,894	40,367	39,076	36,010	-8,013	140,334
Net fee and commission income/expense	3,232	1,208	14,722	-208	-91	18,862
Net gains or losses on financial assets and liabilities	-979	-223	-403	-2,666	2,920	-1,352
Net other operating income/expense	4,212	5,603	1,337	5,788	-11,618	5,322
Net gains or losses on investments accounted for using the equity method	2,222	-4	-	989	-	3,207
Administrative expenses	-19,641	-18,682	-47,377	-13,732	-2,033	-101,465
Impairment losses or gains on financial assets – IFRS 9, ECL	2,171	-10,313	-2,570	35	-1	-10,679
Profit or loss before tax	**24,111**	**17,954**	**4,784**	**26,216**	**-18,836**	**54,228**
Income tax expense						-12,373
Profit for the year						**41,855**
Segment assets	**7,504,547**	**3,094,210**	**2,102,540**	**3,917,180**	**144,773**	**16,763,250**
Segment liabilities	**2,253,736**	**398,700**	**2,345,741**	**10,911,102**	**853,972**	**16,763,250**

Segmental analysis as at 31 Dec. 2020, EUR '000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Group
Net interest income/expense	32,363	34,962	41,844	27,718	-7,735	129,153
Net fee and commission income/expense	2,770	1,379	13,150	-12	82	17,369
Net gains or losses on financial assets and liabilities	820	558	-4,778	3,903	3,423	3,926
Net other operating income/expense	4,108	11,886	1,729	2,257	-8,228	11,752
Net gains on investments accounted for using the equity method	884	2,617	-	737	-	4,237
Administrative expenses	-21,614	-23,263	-45,022	-13,771	-1,173	-104,844
Impairment losses or gains on financial assets – IFRS 9, ECL	-12	-9,979	-10,248	-237	38	-20,438
Profit or loss before tax	**19,318**	**18,161**	**-3,325**	**20,595**	**-13,593**	**41,156**
Income tax expense						-9,281
Profit for the year						**31,876**
Segment assets	**7,300,836**	**2,634,796**	**2,000,090**	**4,341,009**	**139,885**	**16,416,615**
Segment liabilities	**2,197,534**	**422,766**	**2,524,145**	**10,437,705**	**834,466**	**16,416,615**

2.1 Public Sector segment

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

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

As part of the realignment of the segment structure, Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H., an investment accounted for using the equity method, was allocated to the Public Sector segment (up to 31 Dec. 2020: Corporate Center).

The Public Sector segment has a major business relationship with a customer in the meaning of paragraph 34 IFRS 8. The customer in question is a public authority, and the services provided to it mainly take the form of leases, as well as lending and deposit taking. Dealings with the authority and its allocable group entities, in accordance with the definition of major investments and without recourse to the exemption for sub-groups, generated net interest income of EUR 19.77m during the reporting period. This figure comprises EUR 5.75m from direct business relationships with the customer, EUR 3.17m from direct business relationships with allocable group members, and EUR 10.85m from indirect business relationships in the form of lease refinancing.

2.2 Real Estate segment

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

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

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

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

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

With the changes in segment reporting in 2021, HYPO NOE First Facility GmbH (sold on 31 May 2021), HYPO Niederösterreichische Liegenschaft GmbH, the interest in NOE Immobilien Development GmbH accounted for using the equity method and formerly allocated to the Real Estate Services segment, and the investment in EWU Wohnbau Unternehmensbeteiligungs-GmbH – accounted for using the equity method and previously allocated to the Corporate Center – were all transferred to the Real Estate segment. The figures for the previous period have been adjusted accordingly.

2.3 Retail and Corporate Customers segment

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

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

The insurance brokerage business of HYPO NOE Versicherungsservice GmbH (HVS) also forms part of this segment. HVS is the Group's in-house insurance service, acting as an independent broker and advising HYPO NOE Group customers on insurance matters.

2.4 Treasury & ALM segment

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

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

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

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

As a result of the changes in segment reporting, Niederösterreichische Vorsorgekasse AG, an investment accounted for using the equity method, was transferred to the Treasury & ALM segment (up to 31 Dec. 2020: Corporate Center).

2.5 Corporate Center

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

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

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

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

- Cost of cash collaterals for customer derivatives contracts in the absence of collateral agreements:
  Where customer derivatives are not secured by collateral agreements, the HYPO NOE Group does not receive collateral from customers but must post cash collaterals for the related hedges. Liquidity costs are incurred when refinancing the open collateral position. Treasury & ALM is responsible for managing all collateral positions, while the related refinancing costs for the open collateral positions are reported under Corporate Center. Under the current approach, collateral requirements for derivatives contracts with customers are met by means of pricing or collateral agreements, and are therefore not included in this asymmetrical allocation.
- Adverse effects of structural contributions on consumer loans arising from negative variable interest indicators
- Changes in a legal-risk provision for potentially contentious negative interest collected on corporate loans
- Pursuant to the Austrian Supreme Court ruling of 22 December 2021 (3Ob198/21x), repayment of interest received in connection with loans to consumers who were covered by the debt moratorium provided for in section 2 *2. COVID-19-Justiz-Begleitgesetz* (Second Covid-19 Supplementary Legislation Act).

Net interest income in the Corporate Center in 2021 included an expense of EUR 2.4m in asymmetrical allocations arising from collateral expenses (31 Dec. 2020: expense of EUR 3.7m), an expense of EUR 3.8m in unfavourable structural contribution effects arising from negative variable interest rate indicators on consumer loans (31 Dec. 2020: expense of EUR 3.1m), as well as EUR 0.6m in repayments of interest received on consumer loans (31 Dec. 2020: nil).

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

Net gains on financial assets and liabilities in 2021 were EUR 2.9m (31 Dec. 2020: EUR 3.4m). These related to measurement of the HETA contingent additional purchase price. Details can be found in Note 4.7 Provisions.

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

Allocations were made to a provision for negative interest on corporate loans in both 2020 and 2021; these allocations are recognised in “Net other operating income”. See Note 6.2 Provisions for further information. This Corporate Center item also includes compensation for the services of the Retail and Corporate Customers segment in connection with internal customers (31 Dec. 2021: expense of EUR 1.2m; 31 Dec. 2020: expense of EUR 0.9m).

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

3 EQUITY AND CONSOLIDATED OWN FUNDS

3.1 Equity

Significant accounting policies

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

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

EUR ’000	31 Dec. 2021	31 Dec. 2020
Share capital	51,981	51,981
Capital reserves	**191,824**	**191,824**
Appropriated reserve	94,624	94,624
Unappropriated reserve	97,200	97,200
Other reserves	4,610	5,020
Retained earnings	490,427	452,557
Equity attributable to owners of the parent	**738,842**	**701,382**
Non-controlling interests	8,501	8,980
Equity	**747,344**	**710,362**

As was the case a year earlier, as at 31 December 2021 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 2021 the share capital (issued capital) of HYPO NOE Landesbank für Niederösterreich und Wien AG, amounting to EUR 51,981thsd (2020: EUR 51,981thsd), was fully paid-up. Every share confers the right to one vote. In 2021 a dividend of EUR 3,800thsd (2020: EUR 3,500thsd) was paid to the owners. This corresponds to a rounded-up dividend yield of EUR 0.53 per share (2020: EUR 0.49 per share). Management proposes the distribution of a dividend of EUR 3,500thsd for 2021.

The total return on assets was 0.25% (2020: 0.19%).

3.2 Non-controlling interests

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

EUR '000	2021	2020
FORIS Grundstückvermietungs Gesellschaft m.b.H.	22	17
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-162	-101
LITUS Grundstückvermietungs Gesellschaft m.b.H.	29	24
PINUS Grundstückvermietungs Gesellschaft m.b.H.	-64	-109
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-26	-18
Adoria Grundstückvermietungs Gesellschaft m.b.H.	11	10
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-5	-8
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	8	57
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	-8	-6
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-6	-27
METIS Grundstückverwaltungs GmbH	-	1
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	-5	-4
Non-controlling interests	**-205**	**-163**

In 2021 there were no non-controlling interests with a claim to a share of other comprehensive income. Some EUR 33thsd (2020: nil) in dividends was distributed to non-controlling interests. Financial information relating to those unconsolidated subsidiaries in which the Group holds non-controlling interests, including the leasing companies, for which the data is aggregated, is shown below.

	Subsidiaries with non-controlling interests in the Leasing segment	
EUR '000	31 Dec. 2021	31 Dec. 2020
Cash and balances at central banks	101	72
Financial assets – AC	749,194	702,938
Current tax assets	3	6
Deferred tax assets	2,309	1,950
Other assets	607	5,527
Total assets	**752,213**	**710,493**
Financial liabilities – AC	685,944	660,518
Deferred tax liabilities	7,504	7,327
Other liabilities	34,322	14,920
Subordinated capital	-	2,907
Equity	24,443	24,820
Equity attributable to owners of the parent	15,942	15,840
Non-controlling interests	8,501	8,980
Total equity and liabilities	**752,213**	**710,493**

3.3 Reconciliation of equity

EUR '000	31 Dec. 2021	31 Dec. 2020
Equity according to IFRS financial statements	**747,344**	**710,362**
Divergence in scope of consolidation (accounting vs. regulatory treatment)	-251	-725
Equity according to FINREP template 51	**747,092**	**709,636**
Deferred taxes on untaxed reserves	-3,903	-3,903
Prudent valuation (simplified approach)	-997	-1,406
Intangible assets	-197	-236
Prudential backstop	-372	N/A
Ineligible minority interests	-8,501	-8,980
Intra-year change in revaluation surplus, profit and dividend	-3,500	-3,800
Eligible capital	**729,622**	**691,311**

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

- The scope of consolidation according to the CRR and IFRS is slightly different.
- Deferred tax liabilities, which represent 25% of the untaxed liability reserves of EUR 15,612thsd, may not be included in equity, as these reserves will be taxable in the event of reversal (Independent Financial Senate appeal decision GZ.RV/1669-W/02 of 2003, and paragraph 95a AFRAC 30) and hence do not meet the requirements of Article 26(1) CRR in full.
- Pursuant to Commission Delegated Regulation (EU) 2016/101 in conjunction with Article 105 CRR, valuation uncertainties must be considered in relation to items recognised at fair value when using the simplified approach to prudent valuation.
- Article 36(1)(b) CRR states that intangible assets are a regulatory deduction.
- For the purposes of Article 36(1)(m) CRR, "insufficient coverage of non-performing exposures" is the purely regulatory adjustment for non-performing exposures as defined by Article 47a CRR, over and above the IFRS 9 Stage 3 risk provisions, and the calculation formula is set out in Article 47c in conjunction with Article 469a CRR.
- As the minority interests only relate to banks they are not eligible under Article 81 CRR.
- The proposed dividend or an unaudited interim profit is a non-qualifying equity component in the meaning of Article 26(2) CRR.

3.4 Consolidated own funds and regulatory own funds requirement

Under Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR) as amended on a number of occasions, including latterly by Regulation (EU) No 2020/873, and related EBA delegated regulations as well as the directive on access to the activity of credit institutions (Capital Requirements Directive, CRD) as most recently amended by Directive (EU) No 2019/878 – which is currently being transposed by way of the Austrian Banking Act and various national orders – since 2014 it has been necessary to determine banks' consolidated own funds and their consolidated regulatory own funds requirements under IFRS, as well as the regulatory scope of consolidation.

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

EUR '000	CRR/CRD IV 31 Dec. 2021	CRR/CRD IV 31 Dec. 2020
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	**594,641**	**556,407**
Retained earnings	481,417	444,260
Other reserves	104,744	104,744
Accumulated comprehensive income	8,480	7,403
Prudential filters: adjustments due to the prudential measurement requirements	-997	-1,406
Prudential backstop: insufficient coverage of non-performing exposures	-372	-
Intangible assets	-197	-236
CET1 capital	729,622	691,311
Additional Tier 1 capital	-	-
Tier 1 capital	**729,622**	**691,311**
Deductions due to investments, pursuant to Articles 36 and 89 CRR	-	-
Eligible Tier 1 capital	**729,622**	**691,311**
Deductions due to investments, pursuant to Articles 36 and 89 CRR	-	-
Eligible supplementary capital (after deductions)	**-**	**-**
Total eligible capital	**729,622**	**691,311**
Capital requirement	**301,609**	**308,546**
Excess equity	**428,013**	**382,765**
Coverage ratio	241.91%	224.05%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	19.35%	17.92%
Total capital ratio in accordance with Art. 92(2)(c) CRR	19.35%	17.92%
Own funds requirement incl. all buffer requirements	12.62%	12.62%
Leverage ratio in accordance with Art. 92(2)(d) CRR	4.88%	4.71%
Leverage ratio requirement (Pillar 1)	3.04%	3.00%

EUR '000	CRR/CRD IV 31 Dec. 2021	CRR/CRD IV 31 Dec. 2020
Total leverage ratio exposure	14,940,070	14,676,161
Risk-weighted exposure measure	3,430,746	3,494,795
Minimum own funds requirement for credit risk (8%)	274,460	279,584
Own funds requirement for open currency positions	-	-
Own funds requirement for operational risk	24,456	23,119
Own funds requirement for CVA risk	2,694	5,844
Total own funds requirement	**301,609**	**308,546**

The Group's total own funds requirement stood at EUR 301,609thsd as at 31 December 2021 (31 Dec. 2020: EUR 308,546thsd), a decline of EUR 6,937thsd or 2.2%. This change largely reflected reduced risk-weighted assets due to the modified rules for the SME factor (introduced by Article 501 CRR) and the related thorough revision of the recognition formula. It should be noted that the growth in lending by the HYPO NOE Group partly cancelled this effect out. Meanwhile, the replacement of the mark-to-market method for derivatives by the new standardised approach to counterparty credit risk led to a reduction in risk-weighted exposure, and in particular the capital requirement for CVA.

Capital management

Determination of capital requirements and investment opportunities

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

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

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

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

Basel Committee on Banking Supervision (BCBS) Paper 277

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

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

Capital management actions in 2021

No unforeseen capital measures were necessary in 2021. As in the previous reporting periods, most of the profit for the year was retained and used to strengthen the Company's capital base.

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

In order to enhance the resilience of Austrian banks against specific systemic risks, the FMA uses section 23d Banking Act to prescribe additional equity buffers for specifically listed domestic banks, in the form of CET1 capital, under the *Kapitalpuffer-Verordnung* (Capital Buffer Order). The latest amendment to the Order was Federal Law Gazette II No. 541/2021. This brought no changes for the HYPO NOE Group. The buffer requirements were unaltered at 0.5% (2020: 0.5%) of the total risk exposure calculated in accordance with Article 92(3) CRR. Member states use these buffer requirements in very different ways, especially in Scandinavia and Southeast Europe.

The phased introduction of the capital conservation buffer pursuant to section 22 Banking Act began in 2016. Identical throughout the territory of the Community since 2019, this buffer must consist of CET1 capital, and remains at 2.5% of the total risk exposure amount.

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

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

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

Due to the Covid-19 pandemic, all of these countries dropped their buffer requirements or sharply reduced them at the start of 2020 and held them at these low levels in 2021.

At various junctures in 2022, the following states will raise their buffer requirements to the percentages listed below or will introduce a countercyclical capital buffer, in some cases for the first time:

- Kingdom of Denmark: 2%
- Kingdom of Norway: 2%
- Kingdom of Sweden: 1%
- Republic of Bulgaria: 1%
- Republic of Estonia: 1%
- Republic of Iceland: 2%
- Romania: 0.5%
- Czech Republic: 1.5%

A special case is Switzerland, which decided on 26 January 2022 to reactivate a buffer for loans secured by residential properties located in Swiss territory, at a rate of 2.5%, as of 30 September 2022.

At its last meeting, on 13 December 2021, the Austrian Financial Market Stability Board recommended maintaining the country's countercyclical capital buffer at zero. However, a close watch is being kept on movements in the ratio of current, high credit growth to GDP growth (credit-to-GDP gap) and other indicators.

The first announcements of upcoming further increases in and reintroductions of countercyclical capital buffers in 2023 have already been made, and that by the German Federal Republic (0.75%) is of major significance for the HYPO NOE Group.

In 2021 the HYPO NOE Group was not faced with a significant increase in its own funds needs as a result of the buffer requirements (31 Dec. 2021: EUR 686thsd or 0.02%; 31 Dec. 2020: EUR 669thsd or 0.02%). The announced changes point to a doubling of the own funds requirement up to year-end 2022 given the current composition of the underlying business, but the low initial level means that this corresponds to an additional requirement of only about 0.04%.

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

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

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

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

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

4 FINANCIAL INSTRUMENTS AND CREDIT RISK

4.1 Recognition of financial instruments

Significant accounting policies

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

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

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

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

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

4.2.1 Net interest income

Significant accounting policies

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

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

EUR '000	2021	2020
Interest and similar income measured using the effective interest method	**253,020**	**250,021**
Financial assets – FVOCI	11,190	15,342
Financial assets – AC	213,203	204,864
Current finance lease income	28,627	29,815
Interest and similar income not measured using the effective interest method	**178,336**	**187,197**
Financial assets and liabilities – HFT	75,794	79,811
Financial assets – mandatorily FVTPL	716	1,510
Hedges	99,102	103,444
Other interest and similar income	2,725	2,432
Interest expense	**-291,080**	**-308,121**
Financial assets and liabilities – HFT	-74,377	-77,708
Financial liabilities – AC	-119,595	-133,242
Hedges	-97,104	-97,077
Other interest and similar expense	-	-91
Lease liabilities in accordance with IFRS 16	-4	-4
Dividend income	**58**	**55**
Net interest income	**140,334**	**129,153**

In spite of the ongoing Covid-19 pandemic, "Net interest income" grew significantly in 2021, by 8.7%, to reach EUR 140.3m. This was the result of effective sales activities that led to further growth in the volume of lending. Additionally, alongside continued participation in TLTRO III, refinancing requirements were met at competitive rates in a difficult market environment. Active liquidity management helped keep the costs of investing short-term excess liquidity low again in 2021.

On 22 December 2021, in a case brought by the Austrian Consumer Association (VKI) against the bank BAWAG P.S.K., the Austrian Supreme Court ruled (Decision 3Ob189/21x) that the charging of interest to certain customers during the statutory Covid-19 debt moratorium is impermissible. As a result of this change to the legal framework, a correction was made to interest income from the accounts concerned, EUR 559thsd was deducted from income, and a financial liability was recognised under "Other financial liabilities".

Interest capitalised in accordance with paragraph 26(a) IAS 23 totalled EUR 329thsd (2020: EUR 318thsd). The average capitalisation rate was 1.03% (2020: 1.13%).

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

4.2.2 Net gains or losses on financial assets and liabilities

Significant accounting policies

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

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

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

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

EUR ’000	2021	2020
Net gains or losses on:	**-1,353**	**3,903**
Disposal	**301**	**829**
Financial assets – AC	54	350
Financial assets – FVOCI	247	478
Measurement	**-127**	**1,079**
Financial assets and liabilities – AC	**-1,324**	**-5,246**
Net losses due to non-substantial modification	-1,390	-1,274
Direct write-offs	176	-3,827
Financial assets – mandatorily FVTPL	4,641	5,534
Financial assets and liabilities – HFT	-2,692	1,668
Financial assets and liabilities – FVO	-752	-877
Hedging relationships	**-1,527**	**1,995**
Net gains on hedged transactions (fair value hedges)	-55,893	59,637
Net losses on hedges (fair value hedges)	54,366	-57,642
Net gains arising from the derecognition of financial assets	**2**	**23**
Financial assets – AC	2	23
Total	**-1,352**	**3,926**

EUR ’000	2021			
Detailed disclosures: non-substantial modifications	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Net losses due to non-substantial modification of financial assets	-841	-548	-1	**-1,390**
Measures in connection with the Covid-19 pandemic	28	-1	-1	**26**
Amortised cost before non-substantial modification of financial assets	126,486	30,741	994	**158,221**

EUR ’000	2020			
Detailed disclosures: non-substantial modifications	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Net losses due to non-substantial modification of financial assets	-535	-733	-6	**-1,274**
Measures in connection with the Covid-19 pandemic	-56	-357	-8	**-421**
Amortised cost before non-substantial modification of financial assets	126,402	117,878	9,224	**253,504**

The gross carrying amount of financial assets measured at amortised cost affected by non-substantial modifications that were transferred to Stage 1 during the period was EUR 6,864thsd as at 31 December 2021 (31 Dec. 2020: EUR 456thsd).

No significant contract modifications were carried out as a result of debt moratoriums that would lead to derecognition and re-recognition of financial assets (2020: EUR 87thsd).

The net measurement gains on “Financial assets – mandatorily FVTPL” chiefly arise from remeasurement of the HETA contingent additional purchase price, as well as from other financial assets measured at fair value and reported under “Financial assets – mandatorily FVTPL”.

The contractual outstanding amount of financial assets written off in 2021 that are subject to execution measures is EUR 15,212thsd (2020: EUR 15,431thsd).

4.3 Financial assets

Significant accounting policies

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

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

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

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

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

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

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

Estimation uncertainties and judgements

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

The Group's business models are as follows:

- "Hold to collect" business model

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

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

- "Hold to collect and sell" business model

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

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

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

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

On 30 November 2021, HYPO NOE Landesbank acquired a total of 6,032 state-subsidised homebuilding loans under a purchase and trust agreement with the State of Lower Austria, which were transferred to the Bank in accordance with paragraph 3.2.4f IFRS 9 and assigned to the "hold to collect" business model. At 31 December 2021 related receivables from borrowers totalling EUR 418,980thsd were recognised under "Financial assets – AC". The refinancing deposits, defined by HYPO NOE Landesbank as separate deposits following examination of paragraph 3.2.5 IFRS 9, are presented in Note 4.4 Financial liabilities under the item "Financial liabilities – AC" to banks, amounting to EUR 418,909thsd. Interest income of EUR 287thsd up to 31 December 2021 from the acquired loans, and interest expense from the refinancing deposits of EUR 218thsd up to 31 December 2021 are recognised under "Financial assets – AC" within the item "Interest and similar income measured using the effective interest method", and under "Financial liabilities – AC" within the item "Interest expense" (see Note 4.2.1 Net interest income).

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

EUR '000	31 Dec. 2021	31 Dec. 2020
Cash and balances at central banks	**1,409,248**	**1,463,942**
Cash on hand incl. demand deposits	18,236	29,814
Balances at central banks	1,391,012	1,434,129
Financial assets – HFT	**310,574**	**417,189**
Positive fair value of interest rate derivatives	285,171	392,269
Positive fair value of foreign exchange derivatives	25,404	24,919
Financial assets – mandatorily FVTPL	**149,504**	**171,312**
Loans	74,636	99,815
General governments	2,005	2,723
Other financial corporations	1,345	1,465
Non-financial corporations	47,711	66,911
Households	23,574	28,716
Bonds	74,868	71,497
General governments	39,920	37,165
Banks	34,948	34,332
Financial assets – FVOCI	**370,575**	**514,991**
Bonds	368,483	512,834
General governments	302,505	372,562
Banks	57,146	123,861
Other financial corporations	8,832	12,440
Non-financial corporations	-	3,971
Equity instruments	2,092	2,156
Other financial corporations	1,606	1,596
Non-financial corporations	486	560
Financial assets – AC	**14,053,484**	**13,230,957**
Loans	12,746,673	12,030,153
General governments	4,107,134	4,075,921
Banks	554,964	716,167
Other financial corporations	256,708	303,839
Non-financial corporations	5,344,950	4,711,374
Households	2,482,917	2,222,851
Bonds	1,306,811	1,200,804
General governments	573,908	591,897
Banks	475,801	393,792
Other financial corporations	208,568	165,276
Non-financial corporations	48,535	49,839
Total	**16,293,386**	**15,798,390**

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

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

Financial assets include EUR 203,325thsd denominated in foreign currency pursuant to section 64(1)(2) Austrian *Bankwesengesetz* (Banking Act) (31 Dec. 2020: EUR 229,238thsd).

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

Company name	Interest	Fair value 31 Dec. 2021	Fair value 31 Dec. 2020
Equity instruments		**2,092**	**2,156**
NÖ Bürgschaften und Beteiligungen GmbH	5.82%	886	874
Hypo-Wohnbaubank Aktiengesellschaft	12.50%	716	722
Hypo-Banken-Holding Gesellschaft m.b.H.	12.50%	350	432

4.3.1 Analysis of financial assets by maturities

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

EUR '000	31 Dec. 2021	31 Dec. 2020
Financial assets – HFT	**310,574**	**417,189**
Up to 3 months	198	170
3 months to 1 year	2,133	392
1 to 5 years	29,507	41,325
Over 5 years	278,736	375,302
Financial assets – mandatorily FVTPL	**149,504**	**171,312**
Repayable on demand	1,441	2,184
Up to 3 months	320	1,025
3 months to 1 year	5,017	6,080
1 to 5 years	105,753	113,514
Over 5 years	36,972	48,509
Financial assets – FVOCI	**370,575**	**514,991**
Repayable on demand	2,092	2,156
Up to 3 months	18,892	71,258
3 months to 1 year	56,053	30,147
1 to 5 years	203,601	269,386
Over 5 years	89,937	142,043
Financial assets – AC	**14,053,484**	**13,230,957**
Repayable on demand	142,901	171,444
Up to 3 months	179,192	179,731
3 months to 1 year	1,086,582	1,075,266
1 to 5 years	4,486,239	4,173,472
Over 5 years	8,158,570	7,631,043
Positive fair value of derivatives (hedge accounting)	**302,262**	**445,780**
Up to 3 months	432	688
3 months to 1 year	15,783	10,074
1 to 5 years	64,234	119,127
Over 5 years	221,813	315,891
Other assets	**17,904**	**17,390**
Repayable on demand	4,867	2,643
Up to 3 months	6,222	5,131
3 months to 1 year	1,203	1,800
1 to 5 years	2,338	7,207
Over 5 years	3,274	608

Receivables falling due within one year from bonds and other fixed-income securities pursuant to section 64 Banking Act (excluding public debt certificates) stood at EUR 74,868thsd (31 Dec. 2020: EUR 183,238thsd), and those from bonds issued at EUR 714,384thsd (31 Dec. 2020: EUR 696,890thsd).

4.3.2 Supplementary information concerning financial assets

Finance leases (with the Group as lessor)

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

EUR ’000	31 Dec. 2021	31 Dec. 2020
Gross investment	**2,537,300**	**2,553,216**
Minimum lease payments	2,295,320	2,320,771
Up to 1 year	194,226	195,027
1 to 2 years	175,939	175,664
2 to 3 years	170,780	169,268
3 to 4 years	167,014	164,002
4 to 5 years	161,533	160,160
Over 5 years	1,425,830	1,456,650
Unguaranteed residual values	241,979	232,445
Unearned finance income	**-331,385**	**-355,332**
Up to 1 year	-38,234	-39,258
1 to 2 years	-35,910	-36,962
2 to 3 years	-33,569	-34,694
3 to 4 years	-31,181	-32,411
4 to 5 years	-28,743	-30,082
Over 5 years	-163,747	-181,925
Net investment	**2,205,915**	**2,197,883**

Regional authorities – primarily the State of Lower Austria and Lower Austrian local authorities – account for around 98% (2020: 98%) of the finance leases written (as a proportion of assets). The rest of the lessees are business customers, other public agencies or associations. About 96% (2020: 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. 2021	31 Dec. 2020
Minimum lease payments	2,295,320	2,320,771
Unearned finance income	-331,385	-355,332
Net present value of minimum lease payments	**1,963,936**	**1,965,438**
Unguaranteed residual values	241,979	232,445
Net investment	**2,205,915**	**2,197,883**

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

Transfer of financial assets

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

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

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

	31 Dec. 2021		31 Dec. 2020	
EUR '000	Transferred assets	Related liabilities	Transferred assets	Related liabilities
Financial assets – FVOCI	**264,473**	**305,665**	**425,100**	**423,639**
Bonds	264,473	305,665	425,100	423,639
Financial assets – AC	**1,543,339**	**1,856,431**	**1,511,596**	**1,576,850**
Bonds	997,056	1,196,185	919,258	951,694
Loans	546,282	660,246	592,338	625,157
Total	**1,807,812**	**2,162,096**	**1,936,696**	**2,000,489**

Securities admitted to trading

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

	Listed		Not listed	
EUR '000	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Bonds and other fixed-income securities	782,572	730,337	-	-
Total	**782,572**	**730,337**	**-**	**-**

4.4 Financial liabilities

Significant accounting policies

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

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

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

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

Estimation uncertainties and judgements

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

Financial liabilities arising from the TLTRO programme are recognised at amortised cost in accordance with paragraph 4.2.1 IFRS 9, under “Financial liabilities – AC”, and amounted to EUR 2,007,718thsd as at 31 December 2021 (31 Dec. 2020: EUR 1,841,492thsd). Interest income from these liabilities is reported in Note 4.2.1 Net interest income, as negative interest expense under the item “Interest and similar income measured using the effective interest method”, and amounted to EUR 18,775thsd in 2021 (2020: EUR 7,508thsd).

The performance-based interest rate components from the special interest rate periods are reflected in the effective interest rate over the entire term, as a “blended interest rate”, and are as follows:

Special Interest Rate Period 1

The TLTRO programme provides for performance-based compensation of 50 basis points, conditional on the achievement of specific lending targets, granted in addition to the refinancing rate for the period June 2020 to June 2021 (Special Interest Rate Period 1). On initial recognition of the financial instrument it was already expected that the lending targets would be met. The performance-based component was therefore reflected in the effective interest rate by applying a blended interest rate over the entire term, up to scheduled repayment, and not only between June 2020 and June 2021. By March 2021 the HYPO NOE Group’s lending targets were shown to have been met.

Special Interest Rate Period 2

On 10 December 2020 the ECB Governing Council resolved that a further performance-based incentive of 50 basis points should be granted for Special Interest Rate Period 2, from June 2021 to June 2022, on condition of the attainment of certain lending targets in the reference period from 1 October 2020 to 31 December 2021. This decision was published in the Official Journal of the EU on 29 January 2021 (Decision [EU] 2021/124 of the European Central Bank amending Decision [EU] 2019/1311 on a third series of targeted longer-term refinancing operations [ECB/2021/3]). Attainment of the required lending performance target was monitored monthly on the basis of eligible loans, scheduled repayments and an adequate safety buffer. Since in the first half of 2021 the fulfilment of these criteria was viewed as highly likely, a periodic reassessment of the payment flows was made, taking account of altered market conditions, which in turn led to a change in the effective interest rate pursuant to paragraph B5.4.5 IFRS 9 from -0.78% to -0.98%. The additional interest effect of the change in the effective interest rate from 29 January 2021 to 31 December 2021 amounts to EUR 5,399thsd. The HYPO NOE Group has fulfilled the criteria for the incentive under Special Interest Rate Period 2, and the required external audit will take place in the second quarter of 2022.

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

EUR '000	31 Dec. 2021	31 Dec. 2020
Financial liabilities – HFT	**289,887**	**388,764**
Negative fair value of interest rate derivatives	262,252	364,457
Negative fair value of foreign exchange derivatives	27,635	24,307
Financial liabilities – FVO	**6,061**	**5,309**
Other financial liabilities	6,061	5,309
Financial liabilities – AC	**14,920,835**	**14,274,540**
Savings and savings-equivalent deposits	1,209,885	1,237,175
Deposits	5,731,364	5,648,876
Banks	3,151,365	2,663,197
General governments	812,308	1,159,179
Other financial corporations	449,293	527,237
Non-financial corporations	611,455	680,651
Households	706,943	618,613
Bonds in issue	7,979,585	7,388,489
Covered bonds	1,107,930	1,140,874
Municipal bonds	3,769,058	3,517,013
Other bonds	3,102,597	2,730,602
Total	**15,216,782**	**14,668,613**

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

The item disclosed as "Savings deposits" up to 30 June 2021 under "Financial liabilities – AC" was amended to "Savings and savings-equivalent deposits" in the interests of clearer presentation, and additionally includes online savings products as well as savings cards. The item includes savings deposits of EUR 678,847thsd as at 31 December 2021 (31 Dec. 2020: EUR 716,966thsd).

Financial liabilities include EUR 862,801thsd denominated in foreign currency pursuant to section 64(1)(2) Banking Act (31 Dec. 2020: EUR 856,308thsd).

4.4.1 Analysis of financial liabilities by maturities

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

EUR ’000	31 Dec. 2021	31 Dec. 2020
Financial liabilities – HFT	**289,887**	**388,764**
Up to 3 months	3,563	1,078
3 months to 1 year	2,093	289
1 to 5 years	27,584	39,391
Over 5 years	256,647	348,006
Financial liabilities – FVO	**6,061**	**5,309**
1 to 5 years	6,061	5,309
Financial liabilities – AC	**14,920,835**	**14,274,540**
Repayable on demand or no fixed term	2,587,025	2,401,819
Up to 3 months	320,115	403,805
3 months to 1 year	1,468,448	1,874,076
1 to 5 years	6,152,810	5,731,619
Over 5 years	4,392,436	3,863,222
Negative fair value of hedges (hedge accounting)	**615,675**	**829,132**
Up to 3 months	1,326	3,146
3 months to 1 year	4,143	1,609
1 to 5 years	63,828	63,799
Over 5 years	546,378	760,578
Other liabilities	**78,481**	**106,237**
Repayable on demand or no fixed term	5,212	34,537
Up to 3 months	22,319	25,049
3 months to 1 year	25,098	21,099
1 to 5 years	23,764	23,040
Over 5 years	2,087	2,512

4.4.2 Contingent liabilities

EUR ’000	31 Dec. 2021	31 Dec. 2020
Liabilities arising from guarantees and provision of collateral	70,213	128,231

4.4.3 Supplementary information on financial liabilities

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

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

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

EUR '000 **Assets pledged as collateral**	31 Dec. 2021	31 Dec. 2020
Cover pool for covered bonds and public sector covered bonds (bond issues)	**7,513,878**	**6,912,849**
Covering loans	7,330,733	6,734,453
Securities	183,144	178,395
Cash	-	-
Marketable collateral (securities) delivered to the collateral custody account with the OeNB (for "Financial liabilities – AC")*	**1,150,180**	**1,228,841**
Non-marketable collateral (loans) transferred to the OeNB (for "Financial liabilities – AC")*	**456,056**	**498,831**
*OeNB tenders	2,007,718	1,841,492
Securities pledged to the EIB (for "Financial liabilities – AC")	**87,646**	**91,200**
Loans pledged to the EIB (for "Financial liabilities – AC")	**268,767**	**242,213**
Loans pledged for other deposits (for "Financial liabilities – AC")	**417,478**	**-**
Collateral delivered (cash) (for derivatives)	591,131	779,619
Coverage of trustee savings accounts (securities)	**8,000**	**8,000**
Trustee savings accounts requiring coverage	6,091	6,465
Surplus coverage	1,909	1,535

*In addition, repurchased covered bonds of EUR 800m (2020: EUR 500m) were delivered to the OeNB as collateral, which is not recognised in the statement of financial position due to IFRS offsetting rules.

Contingent liability of the State of Lower Austria

Under section 1356 Austrian Civil Code, the State of Lower Austria is liable, as the deficiency guarantor, for all the liabilities incurred by HYPO NOE Landesbank für Niederösterreich und Wien AG up to and including 2 April 2003. Liabilities incurred between 3 April 2003 and 1 April 2007 were covered by the state guarantee, provided that their maturities did not extend beyond 30 September 2017. The guarantee does not cover liabilities incurred after 1 April 2007 or falling due after 30 September 2017. As at 31 December 2021, state guarantees of issues, deposits and other liabilities amounted to EUR 115,931thsd (31 Dec. 2020: EUR 123,681thsd) for the HYPO NOE Group.

4.5 Credit risk and risk provisions

4.5.1 Credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IRB approach (1 year holding period, 99.9% confidence level), EUR '000	**31 Dec. 2021**	**31 Dec. 2020**
Credit risk (counterparty, replacement and issuer risk)	-290,787	-283,421

Credit risk analysis

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

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

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

Operating Credit Risk Management also reviews early warning signs (to which it is mainly alerted by Credit Services) in order to spot potential problem customers and initiate countermeasures in good time. If early warning signs appear (e.g. economic or political instability, negative stock exchange announcements), a loan may be designated as a "watch loan". In the event of a significant and lasting deterioration in creditworthiness as compared to the time of initial recognition, the customer is also flagged as "intensive care". Customers with ratings of between 4C and 4E are also classified as watch loans. All watch loan customers are monitored more closely, and their cases are reviewed at least three times a year or on a quarterly basis by the Problem Loans Committee. The committee takes any decisions related to exposure policy. As at 31 December 2021, the volume of designated watch loans and lending subject to intensive care stood at EUR 225.8m (31 Dec. 2020: EUR 147.7m). The rise in the level of watch loans is mainly due to developments related to the Covid-19 pandemic.

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

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

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

Credit risk monitoring

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

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

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

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

Risk concentration

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

Name concentration risk

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

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

Granularity adjustment (1 year holding period, 99.9% confidence level), EUR ’000	31 Dec. 2021	31 Dec. 2020
Concentration risk inherent in credit risk	-18,789	-20,151

The slight decline in concentration risk is due entirely to reductions in the two biggest concentration risk exposures.

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

EUR ’000	31 Dec. 2021	31 Dec. 2020
1	3,123,863	3,083,873
2	2,599,153	2,657,069
3	192,856	195,081
4	189,550	171,305
5	147,244	139,416

Country risk

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

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

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

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

EUR ’000	31 Dec. 2021	31 Dec. 2020
Austria	14,209,601	13,512,410
Germany	518,995	427,283
Poland	262,271	236,088
Netherlands	260,936	202,617
France	227,239	227,100

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

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

- An empirically determined credit conversion factor (CCF) is applied to determine the aggregate risk exposures (EAD) arising from contingent assets (guarantees and credit facilities).

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

	Aggregate risk exposures	
EUR ’000	**31 Dec. 2021**	**31 Dec. 2020**
Cash and balances at central banks	1,398,143	1,451,587
Financial assets – HFT (held for trading)	321,277	415,263
Financial assets – mandatorily FVTPL (mandatorily measured at fair value through profit or loss, and not held for trading)	121,721	147,079
Financial assets – FVOCI (measured at fair value through other comprehensive income)	321,627	443,550
Financial assets – AC (measured at amortised cost)	14,042,282	12,882,226
Derivatives – positive fair value of hedges (hedge accounting)	75,554	82,823
Tangible assets	79,189	78,864
Intangible assets	9	20
Tax assets	2,429	23
Other assets	12,458	10,354
Total	**16,374,689**	**15,511,790**
Off-balance-sheet	306,631	323,410
Aggregate risk exposures	**16,681,320**	**15,835,200**

Credit risk management

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

The credit risk management system uses the following control units.

	Aggregate risk exposures, EUR ’000	
Control units	**31 Dec. 2021**	**31 Dec. 2020**
Public Finance	8,014,060	7,671,733
Real Estate Project Finance	1,101,444	964,595
Treasury/Capital Market/FI	3,045,652	3,094,071
Housing Development	1,811,058	1,551,630
Housing and Commercial Property in Austria	375,807	301,214
Retail Customers	1,459,998	1,296,566
Corporate Customers	873,300	955,390
Total	**16,681,320**	**15,835,200**

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

	Aggregate risk exposures, EUR ’000	
Rating category	**31 Dec. 2021**	**31 Dec. 2020**
1A – 1E:	8,356,894	8,339,254
2A – 2E	4,649,802	4,117,923
3A – 3E	3,211,433	2,903,096
4A – 4E	347,220	373,245
5A – 5E	115,971	101,682
Total	**16,681,320**	**15,835,200**

Credit risk management on an economic basis is also applied via the Basel segments shown below. The Basel segments do not correspond to the breakdown used in the Bank’s segment information, but instead form the basis for allocations to the risk exposure class within the risk warehouse (RIWA).

	Aggregate risk exposures, EUR ’000	
Basel segments	**31 Dec. 2021**	**31 Dec. 2020**
Banks	803,481	758,460
Sovereigns	2,033,577	2,162,928
State governments and local authorities	4,271,042	4,256,673
Multilateral development banks	35,875	27,225
International organisations	33,746	34,223
Public sector enterprises	522,747	508,717
Special purpose finance (income producing real estate [IPRE] and project finance)	1,602,951	1,468,650
Corporates	5,065,830	4,515,174
Retail customers	2,212,098	1,854,179
Religious communities	71,320	75,393
Associations, insurance companies and leasing companies	28,654	173,578
Total	**16,681,320**	**15,835,200**

Credit risk mitigation

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

The collateral list shows all permissible forms of collateral in the HYPO NOE Group. The principal categories of CRR-compliant collateral that are relevant to the HYPO NOE Group are guarantees (mainly public sector), mortgages and pledges. A considerable proportion of the Group’s aggregate lending relates to the purchase of subsidised home loans from the State of Lower Austria, which are fully secured by a guarantee from the latter.

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

The HYPO NOE Group determines the fair value of mortgage collateral in compliance with the applicable statutory regulations and standards. The Group uses established valuation methods and software for this purpose. Depending on the type of property concerned, the methods employed include the income approach, the comparative value approach, the cost approach, the discounted cash flow method, and a combination of approaches. Standard residential properties are valued by means of an automated, statistically validated system. The relationship manager inputs the property data required for the valuation. The operational department responsible assesses these valuations on a random sample basis. Specially trained and, in some cases, certified assessors value other forms of real estate collateral. If necessary, valuations are performed by externally certified property valuers, and their plausibility internally checked. As of 31 December 2021, the Group had not identified any lasting negative effects on its real estate portfolio resulting from the Covid-19 crisis.

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

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

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

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

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

Current credit risk situation

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

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

Non-performing loan (NPL) coverage is a key performance measure for banks in connection with financial assets in default. NPL coverage is defined as total Stage 3 risk provisions plus collaterals, divided by the sum of the gross carrying amounts of NPLs (financial assets – AC [excluding banks]). Coverage for the Group as at 31 December 2021 was 88.8% (31 Dec. 2020: 75.2%).

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

Investment risk

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

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

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

IRB approach (1 year holding period, 99.9% confidence level), EUR '000	31 Dec. 2021	31 Dec. 2020
Investment risk	-8,984	-8,872

Customer foreign exchange risk

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

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

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

Variance-covariance VaR, IRB approach (1 year holding period, 99.9% confidence level), EUR '000	31 Dec. 2021	31 Dec. 2020
Customer foreign exchange risk	-1,694	-2,289

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

EUR '000	31 Dec. 2021	31 Dec. 2020
Investment grade	161,335	175,244
Non-investment grade	60,074	73,269
Default	7,574	9,179
Total	**228,984**	**257,691**

The largest exposure in the investment grade category relates to a company linked to the State of Lower Austria. The non-investment grade category largely consists of private housing finance. Lending exposed to Swiss franc exchange rate risk was further reduced in 2021.

Other subtypes of credit risk

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

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

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

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

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

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

4.5.2 Risk provisions

Significant accounting policies

Calculation method for Stage 1 and 2 expected credit losses

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

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

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

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

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

Calculation method for Stage 3 expected credit losses

Impairment losses/gains on financial assets in Stage 3 are calculated either automatically or using the expected cash flow (ECF) approach. Both processes are carried out at the individual customer level. An automated procedure is used for non-significant 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, advances and off-balance-sheet items exceed EUR 150thsd. The risk provisions recognised represent the difference between the gross carrying amount of the asset and the present value of expected future cash flows. The scenario-weighted impairment loss is calculated on the basis of the expected recoveries, taking the expected realisation of collateral into account.

Estimation uncertainties and judgements

Rating models

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

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

Inputs

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

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

Measures related to Covid-19

The effects of Covid-19 on the Austrian economy, mainly in the form of lockdowns, and the support packages introduced by governments and central banks, are not yet or only partly reflected in the annual financial statements and financial data currently available for customers. For this reason, in the first half of 2020 the HYPO NOE Group analysed the impact of the Covid-19 crisis on the various customer portfolios, and following a review also applied the analysis to 2021.

HYPO NOE's analysis of the impact of Covid-19 is still based on a special edition of the Oesterreichische Nationalbank (OeNB) economics journal *Konjunktur aktuell*, entitled 'Betroffenheit der österreichischen Unternehmen durch die COVID-19 Pandemie nach Branchen' ('Impact of the Covid-19 pandemic on Austrian companies by industry'; German only), published in April 2020. In its report, the OeNB groups customers in accordance with ÖNACE classification and calculates a score based on various parameters that reflects the impact of Covid-19. Customers are then ranked by score in descending order and split into four colour-coded groups (red, bright red, yellow and green). This ranking was adapted in line with current findings as well as Bank-specific and process-specific factors in order to model the expected effects on the HYPO NOE Group's portfolios. Finally, the anticipated rise in probability of default (PD) due to the Covid-19 crisis was determined, depending on the industry to which each customer belonged and the customer's stand-alone rating, applying a systemic downgrade of up to three notches. The downgrade was not applied to sectors for which up-to-date information already feeds into the rating model, or to customers exposed to low additional Covid-19-related risks because demand for their services remains high. These sectors included "retail", "specialised lending", "financial services", "non-profit housing" and "owners' associations".

The systemic rating downgrade based on the findings of the Covid-19 industry analysis was applied in the customer reviews carried out starting in the fourth quarter of 2020, and throughout 2021. Exceptions are only made for customers for which the Covid-19 crisis has demonstrably had either no impact or a positive impact. Further details can be found in the section "Detailed information on risk provisions", below.

The following tables provide an overview of the HYPO NOE Group's final classification of the various ÖNACE industries according to the impact of the crisis on them (very seriously, seriously and moderately affected). In the qualitative evaluation of ÖNACE industries affected by Covid-19, taking into account experience from 2020, the construction sector was transferred from "very seriously affected" to "moderately affected", and the water supply, wastewater and waste management sector was transferred from "strongly affected" to "not affected". These transfers did not have any material effects.

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

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

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

Rating process

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

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

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

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

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

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

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

Internal rating: HYPO master scale

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

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

Determining the initial rating

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

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

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

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

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

Forbearance

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

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

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

Forborne exposures not classified as non-performing are subject to a regular review process and are also monitored as part of the early warning and event system. In addition, transactions subject to forbearance measures which are in a probation period and have previously been in default are closely monitored in case the account falls into arrears for longer than 30 days.

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

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

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

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

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

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

During 2021, the main forbearance measures took the form of payment deferrals – due in some cases to the consequences of the coronavirus pandemic – as well as rescheduling and refinancing measures.

EUR '000	31 Dec. 2021	31 Dec. 2020
Forborne exposures as at 1 Jan.	**116,782**	**55,285**
Additions (+)	5,049	98,090
Exits (-)	-37,767	-36,593
Forborne exposures as at 31 Dec.	**84,065**	**116,782**
Related interest income from existing receivables recognised in profit or loss	1,657	1,973
Related risk provisions	-14,902	-16,123

Presentation includes both forborne instalments and arrears. There were no significant cases of derecognition as a result of forbearance measures in 2021. Most of the reduction was due to repayments. Unlike the NPL portfolio, the tables below include all assets in respect of which forbearance measures were taken, even where these did not lead to Stage 3 classification at the level of individual exposures.

Geographical analysis

EUR '000	31 Dec. 2021	31 Dec. 2020
Domestic customers	66,725	86,520
Foreign customers		
CEE	4,123	12,297
Rest of the world	13,216	17,966
Total	**84,065**	**116,782**

Rating class analysis

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

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

Maturity analysis

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

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

Payment deferrals and bridging loans

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

Measures related to Covid-19

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

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

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

- Results for 2020 (preliminary if final data are not available) and interim results for 2021
- Forecast liquidity requirements for the coming two to three months (e.g. staff costs, rental and other fixed costs, trade payables and other expenses)
- List of current borrowings (ideally with details of the exposure, maturity date and any collateral)
- Description of the actual financial impacts of Covid-19: the customer must provide plausible evidence and explanations or estimates of the negative consequences of the Covid-19 crisis (drop in revenue or orders, etc.). Financing should not be provided for the purpose of liquidity hoarding

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

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

Statutory moratorium

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

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

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

Non-statutory moratorium

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

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

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

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

Voluntary moratoriums

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

Bridging loans

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

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

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

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

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

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

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

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

	31 Dec. 2021			31 Dec. 2020		
	Min.	Max.	Median	Min.	Max.	Median
All	130%	355%	183%	130%	355%	188%
Retail	145%	245%	188%	146%	243%	191%
Corporate	141%	225%	175%	141%	233%	188%
Institutions	130%	225%	169%	130%	225%	169%
Sovereign	137%	355%	229%	137%	355%	229%

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

The overall evolution of macroeconomic conditions in the sector concerned is also considered when assessing whether a stage transfer is required. An example is the current Covid-19 crisis, which has been subjected to a qualitative staging process based on comprehensive analysis of the portfolios endangered by it.

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

Measures related to Covid-19

No modifications were made to the methods used to determine PD threshold values (staging thresholds for SICR) in connection with the Covid-19 pandemic, or to the classification of financial assets based on default risk characteristics. Due to the pandemic, the forecasting period remained unchanged.

From autumn 2020, recurring waves of infection and varying forms of lockdown measures led to significant limitations on economic and social activity worldwide. Governments and central banks attempted to limit the negative impacts of the crisis with a wide range of support measures. One result was that defaults by corporate customers in Austria were less frequent than before the crisis. It remains difficult to predict the ultimate consequences of the pandemic with any degree of certainty. The prospective rise in defaults to pre-crisis levels following the complete removal of relief measures is an indicator of a significant rise in credit risk.

In order to take these negative expectations into account, all of the accounts of customers in industries classified as at risk in the internal analysis of the impact of the pandemic, and which were not already subject to a stage transfer due to meeting other criteria, were transferred to Stage 2. New business concluded after 1 November 2020 was not transferred, as credit risk on these exposures has not increased significantly since the loans were extended. From the fourth quarter of 2020, there was a fundamental change in expectations of a swift end to the pandemic. This was accompanied by increased expectations of a rise in credit risk. Following a relatively calm summer with lower rates of infection, Covid-19 cases rose rapidly worldwide. Recurring lockdowns and other measures aimed at limiting activity were used to stem infection rates, flanked by economic support measures. Therefore, there is no evidence of a significant increase in credit risk on new borrowing due to the pandemic in comparison with the risk at the time of conclusion of the contract.

For special purpose finance, in customer reviews there was a stronger focus on the specific impact of the Covid-19 crisis on individual customers, and where necessary this was reflected in stage allocation by means of a qualitative stage transfer. Project finance for hotel, shopping centre and office real estate projects was most significantly affected.

Potentially higher rates of corporate default result in significantly higher credit risk for retail customers as well, due to the possibility of job losses. It is still hard to predict the medium-term effects of the crisis due to the relief measures introduced. That said, the HYPO NOE Group expects the creditworthiness of further customers to deteriorate once the support programmes end. In order to incorporate these factors in the Bank's forecasts, in spite of the high degree of uncertainty associated with them, in 2020 a further 50% of the Stage 1 accounts were transferred to Stage 2. As the Bank does not have any reliable information with which to carry out stage transfers on an individual basis, every second receivable in the retail customers segment (under the Basel classification) was transferred to Stage 2. The accounts transferred in this way in 2020 remained in Stage 2, as the associated expectations did not change significantly. Newly concluded borrowing remains excluded from this transfer. Due to natural changes in the composition of the portfolio as a result of this new business and the expiry of existing transactions, the proportion of transactions affected by the additional stage transfer was lower at the end of the reporting period.

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

Financial assets with impaired credit quality (Stage 3)

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

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

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

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

The following indicators are also applied to corporate loan agreements:

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

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

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

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

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

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

Depreciation, amortisation and impairment

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

Cure

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

- The exposure is performing in accordance with the regulatory forbearance requirements
- None of the customer's loans or receivables are in arrears or overdue.
- The reason or reasons that triggered the default event have no longer applied for an extended period. Intensive care customers must also meet all of the following criteria, regardless of the initial default event:
  - Obligations arising from the loan agreement are duly fulfilled for the following minimum periods after restructuring:
    - Six months in the case of monthly repayments
    - Nine months in the case of quarterly repayments
    - 12 months in the case of half-yearly repayments
      - Retail customers
        - Positive household budget
      - All other customer groups
        - Two successive sets of annual financial statements (statement of financial position, or receipts and payments statement) showing an operating profit
        - Long-term debt service from cash flow is realistic
  - Improvement in the customer's financial situation
  - No other indications of impaired creditworthiness

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

Measurement parameters

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

Probability of default (PD)

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

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

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

TTC PD curves

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

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

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

Point in time (PiT) PD curves

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

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

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

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

Historical data for these economic indicators is taken from data published by Eurostat, the EU's statistical office. Since 31 December 2021, a weighted average of forecasts from three different sources has been used for the macroeconomic forecasts incorporated into the model. Previously, only the OeNB forecast was used. This refinement is intended to reduce forecast uncertainty. The forecast horizon is unchanged at three years. Published data from the following institutions are used as sources for the forecast: the OeNB, the Austrian Institute of Economic Research (WIFO), Fitch Solutions (Fitch), the Institute for Advanced Studies (IHS) and Organisation for Economic Cooperation and Development (OECD). The final selection of forecast sources is made according to the criteria of currentness, granularity and forecasting horizon, and the selection is limited to three different sources. The following forecasts fed into the model for PiT adjustment as at 31 December 2021, with the following weightings: OeNB 34%, WIFO 33%, Fitch 33%.

In addition to taking multiple forecast sources into account for the first time, the scenario approach was extended. Previously, only the PiT PD baseline scenario – the scenario with the highest expected value – was applied. From 31 December 2021, in addition to the baseline scenario, an optimistic and a pessimistic alternative scenario will be incorporated into the estimate for the final PiT PDs. To determine the alternative scenarios, the 10% quantile of a stochastic distribution of PD scenarios resulting from a large number of possible trajectories of the macroeconomic variables was selected for the optimistic scenario, and the 90% quantile for the pessimistic scenario.

These refinements did not lead to any material restructuring effects. They resulted in an increase in risk provisions of approximately EUR 200thsd at the end of the reporting period.

The three PD scenarios are weighted to produce the overall PiT PD curves for the retail and corporates customer groups. The weighted PiT PD curves provide the basis for evaluation of the quantitative stage transfer. In principle, both the optimistic and the pessimistic scenario are given a 10% weighting, in accordance with the selected quantiles. However, if available information is not adequately reflected in the forecasts, the weighting is reviewed to determine whether an adjustment is required. At the reporting date, possible negative impacts of the Omicron variant of the SARS-CoV-2 virus – which has now become widespread – had not been modelled. Due to the high infection risk at present, there is major uncertainty regarding the development of the pandemic going forward, as well as potential negative interventions such as lockdowns, and possible shutdowns in systemic sectors due to high rates of sick leave. In order to take this information into consideration appropriately, the HYPO NOE Group adapted the weighting of the three PD scenarios as at 31 December 2021 as follows: baseline scenario 60%, optimistic scenario 10%, pessimistic scenario 30%.

The current model considers macroindicators, as well as a time lag between the movement of the indicators and the expected time of default. Moratoriums and state support measures have further extended the lag between shifts in the indicators and the defaults. This degree of lagging was not included in previous empirical studies. The lengths of these delays are known, and attention was paid to them in the PD forecasts. For the yearly forecast, the change in the macro-parameters as compared with 31 December 2019 (the pre-crisis level) was used in the calculation, rather than the published year-on-year change, as long as the value of each parameter had not reached its pre-crisis level in the previous year. This removed the positive distortions in the relative evolution of the macroindicators resulting from a comparison with the indicators' low levels during the crisis, so that the high growth rates in the subsequent years of the crisis are not given too much weight in the macroeconomic model.

The tables below provide a comparison of the macroeconomic indicators published by the selected sources and those applied in generating the HYPO NOE Group's forecasts as at 31 December 2021 and 31 December 2020.

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

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

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

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

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

Rating	1Y PD – master scale	1Y PiT PD – corporate	1Y PiT PD – retail
1A	0.01%	0.04%	The assessment of retail customers' creditworthiness begins at a rating of 2C, so these categories do not apply
1B	0.02%	0.04%	
1C	0.03%	0.05%	
1D	0.04%	0.06%	
1E	0.05%	0.07%	
2A	0.07%	0.09%	
2B	0.11%	0.14%	
2C	0.16%	0.21%	0.25%
2D	0.24%	0.31%	0.35%
2E	0.35%	0.49%	0.54%
3A	0.53%	0.82%	0.79%
3B	0.80%	1.34%	1.18%
3C	1.20%	2.01%	1.72%
3D	1.79%	2.98%	2.53%
3E	2.69%	4.46%	3.71%
4A	4.04%	6.64%	5.44%
4B	6.05%	10.28%	7.97%
4C	9.08%	15.88%	11.67%
4D	13.62%	24.40%	17.02%
4E	20.44%	37.24%	24.76%

LGD for uncollateralised loan portions

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

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

LGD for collateralised loan portions

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

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

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

As of 31 December 2021, the Group had not identified any lasting negative effects on its real estate portfolio resulting from the Covid-19 crisis. In order to counteract the uncertainty arising from the Covid-19 pandemic with regard to calculating lifetime expected credit losses, additional sensitivity analyses were carried out which take into account a downturn in the value of real estate used as collateral. Details of this analysis are provided in the section “Scenarios and sensitivities”, below.

Credit conversion factor (CCF)

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

Early repayments

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

Instruments with no fixed maturity date

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

Climate risk

As part of an initial screening for transition risks, the exposure of the Group’s credit portfolio to particularly CO_2-intensive sectors was evaluated. The first step in classification was an assessment of CO_2 consumption by customer NACE sector (source: Technical Expert Group [TEG] Sustainable Finance, 2020, Scope 1). Secondly, the credit portfolio was analysed in more detail, since real estate and public sector finance in particular largely comprises financing that meets high environmental and social standards, and these areas make up a significant proportion of the Group’s credit portfolio. The evaluations showed that currently less than 1% of the HYPO NOE Group's credit portfolio relates to the most CO_2-intensive sectors.

Approximately one-third of this sub-portfolio was allocated to Stage 1 in the fourth quarter of 2021. An analysis of the affected transactions by Operating Credit Risk Management did not identify any potentially high-risk customers that required migration to Stage 2. The remainder of the portfolio is already allocated to Stage 2 and therefore adequate risk provisions have been recognised.

Another significant risk in the medium to long term is the physical risk of rising sea levels. In this connection the HYPO NOE Group has specifically evaluated financing in the Netherlands, which makes up about 2% of the entire credit portfolio. Based on a forecast of the expected sea level in 30 years (source: Travelbook), the Group concluded that on account of average remaining terms of approximately five years, and the long-standing, highly successful implementation of countermeasures in the Netherlands, there is no acute risk in this regard and therefore no basis for the recognition of additional risk provisions. In future it is planned that new loan applications will be subject to an assessment of location in order to identify risks posed by a rising sea level, which will be included in the decision-making process for approving finance. Climate risk will be included in reporting on a case-by-case basis as part of financing reviews in 2022, and the remainder of the portfolio will also be examined for potential risks in this regard.

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

Scenarios and sensitivities

The HYPO NOE Group analyses a range of scenarios in order to reduce uncertainty arising from the use of forecasts and statistical models when estimating PD, and to provide a transparent indication of such uncertainty. The results from the different scenarios as at 31 December 2021 and 31 December 2020 are shown below. A reconciliation of risk provisions in the individual scenarios with the weighted overall scenario is not possible, as the differing PDs in the scenarios result in different quantitative stage transfers.

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

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

The Covid-19 pandemic has increased the level of uncertainty associated with measuring expected credit losses. To counter this, the HYPO NOE Group has carried out additional sensitivity analyses. These show the effects and sensitivities of qualitative staging for industries, customer groups and customers significantly affected by the Covid-19 pandemic. In addition, one scenario is presented that depicts the effects of an increase of 25% in all unsecured losses, coupled with a 15% fall in the value of real estate collaterals. Finally, the risk provisions and sensitivity when applying the Group's standard weighting of the three scenarios is presented.

EUR '000	Risk provisions – Stage 1 and 2	Sensitivity	Description of change in parameters
Sensitivity 1	48,594	-3,203	No qualitative staging for industries affected by Covid-19
Sensitivity 2	48,704	-3,094	No qualitative staging for special financing affected by Covid-19
Sensitivity 3	50,902	-896	No qualitative staging due to Covid-19 for retail customers
Sensitivity 4	53,947	2,149	Increased Covid-19-related staging for all retail customers
Sensitivity 5	70,266	18,468	Increase of +25% in the unsecured LGD and reduction of 15% in the value of real estate collaterals
Sensitivity 6	51,116	-682	Scenario weighting: baseline 80%, optimistic 10%, pessimistic 10%

4.5.3 Detailed information on risk provisions

Risk provisions by rating class

	Risk provisions					Gross carrying amount/nominal amount				
	31 Dec. 2021				31 Dec. 2020	31 Dec. 2021				31 Dec. 2020
EUR '000	Stage 1	Stage 2	Stage 3	Total	Total	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances at central banks	**-7**	**-16**	**-**	**-23**	**-13**	**1,409,007**	**264**	**-**	**1,409,271**	**1,463,955**
Financial assets – AC	**-9,639**	**-39,627**	**-38,868**	**-88,135**	**-79,068**	**10,715,770**	**3,313,966**	**111,883**	**14,141,619**	**13,310,025**
Loans	-9,473	-30,138	-38,868	-78,478	-68,741	9,520,891	3,192,377	111,883	12,825,151	12,098,894
Rating class 1	-62	-236	-	-298	-300	3,816,296	916,762	-	4,733,058	4,635,934
Rating class 2	-3,621	-5,210	-	-8,831	-7,945	4,378,457	1,017,716	-	5,396,173	4,981,726
Rating class 3	-5,499	-14,763	-	-20,262	-26,120	1,297,323	1,052,471	-	2,349,794	2,112,071
Rating class 4	-291	-9,928	-	-10,219	-5,274	28,816	205,428	-	234,244	273,744
Rating class 5	-	-	-38,868	-38,868	-29,102	-	-	111,883	111,883	95,418
Bonds	-167	-9,489	-	-9,656	-10,327	1,194,879	121,589	-	1,316,468	1,211,131
Rating class 1	-46	-43	-	-89	-92	763,146	43,624	-	806,771	753,743
Rating class 2	-116	-52	-	-168	-200	424,419	24,901	-	449,320	393,710
Rating class 3	-5	-9,394	-	-9,399	-502	7,314	53,063	-	60,377	24,210
Rating class 4	-	-	-	-	-9,533	-	-	-	-	39,469
Financial assets – FVOCI	**-12**	**-**	**-**	**-12**	**-25**	**357,958**	**-**	**-**	**357,958**	**512,859**
Bonds	-12	-	-	-12	-25	357,958	-	-	357,958	512,859
Rating class 1	-6	-	-	-6	-7	297,151	-	-	297,151	370,849
Rating class 2	-5	-	-	-5	-18	60,807	-	-	60,807	142,010
Trade receivables	**-**	**-49**	**-**	**-49**	**-47**	**-**	**4,196**	**-**	**4,196**	**2,036**
Provisions for off-balance-sheet risks	**-924**	**-1,523**	**-894**	**-3,342**	**-2,794**	**1,484,630**	**236,851**	**1,267**	**1,722,748**	**1,879,940**
Rating class 1	-	-29	-	-29	-33	469,869	78,467	-	548,336	737,019
Rating class 2	-112	-108	-	-221	-170	229,491	50,822	-	280,313	313,430
Rating class 3	-773	-600	-	-1,373	-2,139	779,757	92,132	-	871,890	789,871
Rating class 4	-39	-787	-	-826	-416	5,513	15,429	-	20,941	39,341
Rating class 5	-	-	-894	-894	-36	-	-	1,267	1,267	279
Total	**-10,582**	**-41,215**	**-39,762**	**-91,560**	**-81,947**	**13,967,365**	**3,555,276**	**113,150**	**17,635,791**	**17,168,816**

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

The breakdown of the carrying amounts and risk provisions for the Covid-19 portfolio by rating class as at 31 December 2021 is presented in the table below.

	Risk provisions					Gross carrying amount/nominal value				
	31 Dec. 2021				31 Dec. 2020	31 Dec. 2021				31 Dec. 2020
EUR '000	Stage 1	Stage 2	Stage 3	Total	Total	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets – AC	**-**	**2**	**110**	**112**	**4,083**	**231**	**136**	**205**	**572**	**111,677**
Loans	-	2	110	112	4,083	231	136	205	572	111,677
Rating class 1	-	-	-	-	-	-	-	-	-	18,488
Rating class 2	-	-	-	-	199	-	-	-	-	38,307
Rating class 3	-	-	-	-	1,700	231	-	-	231	25,896
Rating class 4	-	2	-	2	516	-	136	-	136	20,311
Rating class 5	-	-	110	110	1,667	-	-	205	205	8,675
Provisions for off-balance-sheet risks	**-**	**-**	**-**	**-**	**6**	**4**	**7**	**1**	**11**	**434**
Rating class 1	-	-	-	-	-	-	-	-	-	-
Rating class 2	-	-	-	-	-	-	-	-	-	-
Rating class 3	-	-	-	-	-	4	7	-	10	232
Rating class 4	-	-	-	-	5	-	-	-	-	202
Rating class 5	-	-	-	-	-	-	-	1	1	-
Total	**-**	**2**	**111**	**112**	**4,089**	**235**	**142**	**206**	**583**	**112,112**

Impact of Covid-19 – industry analysis

The tables below show the results of the industry-based analysis of the impact of Covid-19, and in particular the systemic rating downgrades applied to the different rating classes, as well as the carrying amounts, the risk provisions and the proportion of customers assigned to Stage 2 as at 31 December 2021.

EUR '000	Industries very seriously affected by Covid-19			
Rating class	Downgrade, notches	Carrying amount	Risk provisions	Proportion in Stage 2
Rating class 1	-	37,276	43	100%
Rating class 2	1	540	5	100%
Rating class 3	1 - 2	24,688	801	100%
Rating class 4	3 (to max. 4E)	6,295	139	100%
Total		**68,799**	**989**	

EUR '000	Industries seriously affected by Covid-19			
Rating class	Downgrade, notches	Carrying amount	Risk provisions	Proportion in Stage 2
Rating class 1	-	163,647	71	100%
Rating class 2	-	157,319	464	100%
Rating class 3	1	96,398	1,202	100%
Rating class 4	2 (to max. 4E)	11,646	602	100%
Total		**429,010**	**2,339**	

EUR '000	Industries moderately affected by Covid-19			
Rating class	**Downgrade, notches**	**Carrying amount**	**Risk provisions**	**Proportion in Stage 2**
Rating class 1	-	733,984	190	100%
Rating class 2	-	159,962	336	100%
Rating class 3	1	175,053	2,239	100%
Rating class 4	1 (to max. 4E)	53,328	569	100%
Total		**1,122,328**	**3,335**	

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

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

EUR '000	Changes in risk provisions, 2021	Impairment losses/gains on financial assets – IFRS 9 ECL	Interest expense	Not recognised through profit or loss	Changes in risk provisions, 2020
Risk provisions at start of reporting period	**-81,947**				**-77,568**
Increase due to origination and purchase	-6,037	-6,037	-	-	-9,400
Reduction due to derecognition and substantial modification	3,279	3,279	-	-	2,640
Utilisation of risk provisions	1,722	-	-	1,722	16,876
Allocations and reversals due to changes in credit risk	-8,566	-7,894	-671	-	-14,457
Cash and balances at central banks, and trade receivables	-12	-27	-	15	-37
Risk provisions at end of reporting period	**-91,560**	**-10,679**	**-671**	**1,737**	**-81,947**

Stage 1 impairment losses/gains

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

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

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

Stage 2 impairment losses/gains

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

31 Dec. 2021 EUR '000	1 Jan. 2021	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	31 Dec. 2021
Cash and balances at central banks	**-9**	**-**	**-**	**-8**	**-**	**-16**
Financial assets – AC	**-39,077**	**-86**	**1,151**	**-1,615**	**-**	**-39,627**
Loans	-28,874	-86	1,146	-2,324	-	-30,138
General governments	-938	-	63	111	-	-764
Other financial corporations	-182	-	1	-120	-	-302
Non-financial corporations	-17,989	-70	671	-5,691	-	-23,078
Households	-9,764	-16	411	3,376	-	-5,994
Bonds	-10,203	-	5	709	-	-9,489
General governments	-3	-	-	1	-	-2
Other financial corporations	-9,554	-	-	528	26	-9,000
Non-financial corporations	-647	-	5	180	-26	-488
Financial assets – FVOCI	**-7**	**-**	**1**	**6**	**-**	**-**
Bonds	-7	-	1	6	-	-
Banks	-	-	-	-	-	-
Non-financial corporations	-7	-	1	6	-	-
Trade receivables	**-17**	**-32**	**-**	**-**	**-**	**-49**
Provisions for off-balance-sheet risks	**-1,873**	**-22**	**668**	**-296**	**-**	**-1,523**
Loan commitments and financial guarantee contracts	-1,873	-22	668	-296	-	-1,523
Total	**-40,982**	**-140**	**1,820**	**-1,913**	**-**	**-41,215**

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

Stage 3 impairment losses/gains

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

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

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

4.6 Derivatives and hedge accounting

Significant accounting policies

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

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

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

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

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

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

The euro overnight index average (EONIA) benchmark rate, among others, does not meet the requirements of the EU Benchmarks Regulation, and will therefore gradually be replaced by the new euro short-term rate (€STR). In July 2020 the discount curves for cleared derivatives, which are traded on the Eurex Exchange and through LCH, were switched from EONIA to €STR. The resulting measurement differences were offset by means of compensation payments. In 2021 an identical, step-by-step changeover was made for the discount curves for derivatives with bilateral contracts and CSAs. Again, compensation payments were made in respect of the resulting measurement differences. The Group recognised these payments immediately in profit or loss.

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

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

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

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

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

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

As at 31 December 2021, only micro fair value hedges were reported on the consolidated statement of financial position. A micro-hedge arises if a hedged underlying (or group of underlyings) can be clearly assigned to one or more hedges. Bottom layer hedges are used as a special form of micro fair value hedge for a variety of fixed-interest loans. Here, a bottom layer for a group of like underlyings is designated for hedge accounting, and it is assumed that following the expected prepayments this layer will in all likelihood remain in place until the hedge transactions mature. In this case, precise allocation of the individual underlyings to the remaining bottom layer is not required.

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

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

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

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

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

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

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

4.6.1 Carrying amounts and nominal values of derivatives

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

The following table gives an overview of the nominal values and carrying amounts of derivatives carried as at 31 December 2021.

	31 Dec. 2021			31 Dec. 2020		
	Carrying amount		Nominal value	Carrying amount		Nominal value
EUR '000	**Assets**	**Liabilities**		**Assets**	**Liabilities**	
Financial assets and liabilities – HFT	**310,574**	**289,887**	**4,024,225**	**417,189**	**388,764**	**4,413,627**
Interest rate derivatives	285,171	262,252	3,314,621	392,269	364,457	3,686,255
Foreign exchange derivatives	25,404	27,635	709,604	24,919	24,307	727,372
Positive and negative fair value of hedges (hedge accounting)	**302,262**	**615,675**	**10,453,371**	**445,780**	**829,132**	**10,152,852**
Interest rate derivatives	292,833	596,834	10,236,440	439,632	809,316	9,945,667
Foreign exchange derivatives	9,429	18,841	216,931	6,148	19,815	207,185

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

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

4.6.2 Detailed information on hedge accounting

Net gains or losses on hedging relationships

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

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

EUR '000	2021			2020		
	Net gains or losses on hedged transactions	Net gains or losses on hedges	Net gains or losses on hedging relationships	Net gains or losses on hedged transactions	Net gains or losses on hedges	Net gains or losses on hedging relationships
Assets						
Financial assets – FVOCI	**-17,611**	**17,829**	**218**	**-2,924**	**3,373**	**449**
Bonds	-17,611	17,829	218	-2,924	3,373	449
Financial assets – AC	**-220,229**	**222,061**	**1,832**	**80,670**	**-76,655**	**4,015**
Loans	-192,071	193,173	1,102	69,574	-65,526	4,048
Bonds	-28,158	28,888	731	11,095	-11,129	-33
Investment property	**-182**	**183**	**1**	**115**	**-124**	**-9**
Equity and liabilities						
Financial liabilities – AC	**182,129**	**-185,707**	**-3,579**	**-18,223**	**15,764**	**-2,460**
Deposits	721	-941	-220	172	-212	-40
Bonds in issue	181,408	-184,766	-3,359	-18,395	15,976	-2,420
Total	**-55,893**	**54,366**	**-1,527**	**59,637**	**-57,642**	**1,995**

The change in "Net gains or losses on hedging relationships" as compared to 2020 is mainly due to the basis risks arising from differing discount curves, and to foreign exchange basis risks, where these were not taken to OCI.

Positive fair value of hedges (hedge accounting)

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

EUR '000	31 Dec. 2021	31 Dec. 2020
Assets	**25,536**	**3,138**
Financial assets – FVOCI	34	-
Financial assets – AC	25,502	3,138
Equity and liabilities	**276,726**	**442,642**
Financial liabilities – AC	276,726	442,642
Total	**302,262**	**445,780**

Negative fair value of hedges (hedge accounting)

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

EUR '000	31 Dec. 2021	31 Dec. 2020
Assets	**577,893**	**809,109**
Financial assets – FVOCI	46,667	68,707
Financial assets – AC	531,063	740,056
Investment property	163	346
Equity and liabilities	**37,783**	**20,023**
Financial liabilities – AC	37,783	20,023
Total	**615,675**	**829,132**

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

Underlying transactions in fair value hedges

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

	31 Dec. 2021		31 Dec. 2020	
EUR '000 Assets	Carrying amounts of underlyings	Basis adjustments contained in the carrying amounts of underlyings	Carrying amounts of underlyings	Basis adjustments contained in the carrying amounts of underlyings
Financial assets – FVOCI	**368,483**	**38,615**	**509,799**	**57,522**
Bonds	368,483	38,615	509,799	57,522
Financial assets – AC	**4,194,280**	**480,097**	**4,150,786**	**707,854**
Loans	3,182,347	464,511	3,299,637	664,292
Bonds	1,011,932	15,585	851,149	43,561
Investment property	**3,870**	**195**	**4,160**	**376**
Equity and liabilities				
Financial liabilities – AC	**7,634,338**	**170,618**	**7,022,571**	**352,931**
Deposits	66,184	899	85,203	1,804
Bonds in issue	7,568,155	169,719	6,937,368	351,127

Maturity profile of hedges

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

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

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

4.7 Fair value disclosures

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

Significant accounting policies

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

Level 1

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

Level 2

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

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

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

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

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

Level 3

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

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

Level 3 fair values occur in the following items.

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

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

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

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

In the second half of 2021, in addition to the updated wind-down plan, ad hoc announcements were published which made it necessary to modify the scenarios in the measurement model in comparison to the previous year. The following documents provided the basis for the revaluation:

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

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

Financial assets – HFT

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

Financial assets – FVOCI (equity instruments)

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

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

Financial assets – AC

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

4.7.1 Fair value hierarchy

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

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

31 Dec. 2020, EUR ’000	Carrying amount	Fair value	Fair value measurement Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	1,463,942	1,463,947	1,434,130	29,817	-
Financial assets – HFT	417,189	417,189	-	75,458	341,731
Financial assets – mandatorily FVTPL	171,312	171,312	-	45,467	125,845
Financial assets – FVOCI	514,991	514,991	510,804	2,031	2,156
Financial assets – AC	13,230,957	13,600,701	987,057	141,417	12,472,227
Positive fair value of hedges (hedge accounting)	445,780	445,780	-	445,780	-
Total assets	**16,244,170**				
Equity and liabilities					
Financial liabilities – HFT	388,764	388,764	-	388,764	-
Financial liabilities – FVO	5,309	5,309	-	-	5,309
Financial liabilities – AC	14,274,540	14,382,095	3,207,991	5,742,526	5,431,578
Negative fair value of hedges (hedge accounting)	829,132	829,132	-	829,132	-
Total equity and liabilities	**15,497,745**				

In 2021 there were no transfers of financial instruments between the different levels of the fair value hierarchy.

4.7.2 Fair value hierarchy: Level 3 disclosures

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

Details of the gains or losses on assets for which measurements are categorised within Level 3 are provided in Note 4.2.2 Net gains or losses on financial assets and liabilities.

EUR '000	1 Jan. 2020	Gains/losses: Recognised in profit or loss	Gains/losses: Not recognised in profit or loss	Purchases	Sales	Transfers to/from Level 3	31 Dec. 2020	Unrealised gains or losses recognised in profit or loss as at 31 Dec. 2020
Assets								
Financial assets – HFT	367,027	-25,432	-	-	-	136	341,731	-24,432
Financial assets – mandatorily FVTPL	156,083	5,264	-	20,262	-55,764	-	125,845	5,264
Financial assets – FVOCI	2,615	-	-415	-	-43	-	2,156	55
Total assets	**525,725**	**-20,168**	**-415**	**20,262**	**-55,807**	**136**	**469,732**	**-19,113**
Equity and liabilities								
Financial liabilities – FVO	4,432	877	-	-	-	-	5,309	-
Total equity and liabilities	**4,432**	**877**	**-**	**-**	**-**	**-**	**5,309**	**-**

Estimation uncertainties and judgements

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

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

31 Dec. 2021, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets – HFT	242,048	388	Hybrid Hull-White model	Global CDS spreads
Financial assets – mandatorily FVTPL (excl. HETA)	72,400	1,828	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets – FVOCI	2,092	N/A	Adjusted net asset value (NAV) model; DCF model	Adjusted equity (for adjusted NAV model); WACC (for DCF model); cost of equity (for both models)
Total	**316,540**	**2,216**		

31 Dec. 2020, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets – HFT	332,096	612	Hybrid Hull-White model	Global CDS spreads
Financial assets – mandatorily FVTPL (excl. HETA)	96,595	2,685	Discounted cash flow (DCF) model	Credit and liquidation risk premiums
Financial assets – FVOCI	2,156	N/A	Adjusted net asset value (NAV) model; DCF model	Adjusted equity (for adjusted NAV model); WACC (for DCF model); cost of equity (for both models)
Total	**430,847**	**3,297**		

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

	Change in fair value	
EUR '000	31 Dec. 2021	31 Dec. 2020
10% increase in adjusted equity	197	209
10% decrease in adjusted equity	-197	-209
50 bp increase in WACC	-2	-1
50 bp decrease in WACC	3	1
50 bp increase in cost of equity	-12	6
50 bp decrease in cost of equity	14	-7

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

On 20 October 2021 the extraordinary general meeting of HETA Asset Resolution AG resolved to make final payment at the FMA payout ratio of 86.32%. This means that payment is essentially assured, though its timing is not yet clear. However, in November 2021 KAF announced in a press release that it is considering a possible payment of the CAPP before it falls due, and will report in this regard in the coming months.

In addition, following fulfilment of the conditions stipulated in section 84(10) *Sanierungs- und Abwicklungsgesetz* (Recovery and Resolution of Banks Act), HETA plans to adopt a liquidation resolution that will provide the basis for an administrative ruling by the FMA, as the resolution authority, to terminate HETA's status as a wind-down entity. This will end the FMA's supervision of HETA pursuant to the Banking Act and the Recovery and Resolution of Banks Act. HETA will then enter a liquidation procedure in accordance with the Austrian *Aktiengesetz* (Companies Act). Any liquidation proceeds that remain at the end of this procedure will be distributed to creditors of eligible non-subordinated liabilities. HETA also published a wind-down plan on 16 December 2021, based on a final payout ratio of 89.25%.

All of this new information was taken into account in the valuation of the HETA CAPP as at year-end. In future, separate scenarios will be simulated for expected payments based on the FMA payout ratio, and for payments which remain uncertain and are dependent on the continued wind-down process and the results of the liquidation procedure. The scenarios will then be combined to arrive at an overall payout rate. This will enable more precise presentation of different assumptions regarding maturities and expected returns.

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

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

After discounting the forecast payments and applying the weightings, the CAPP payout ratio was valued at 7.82% as at year-end. The model produced a range of valuations between 6.35% and 8.81%.

Although uncertainties regarding the valuation of the CAPP have been reduced in the course of the wind-down, valuation is still subject to risks and uncertainties. In addition to overall economic developments, the progress of the wind-down of the assets, and uncertainty over the outcomes of legal proceedings, announcements and wind-down plans have in some cases deviated significantly from previous announcements. Therefore, the recovery amount and the date(s) of payment of the CAPP are still uncertain, even if the range of possible outcomes has become narrower in recent years. If subsequent developments surrounding HETA result in changes to the parameter assumptions underlying the model and described here, this will also result in changes to the calculated value of the payout. The effects of changes in significant unobservable inputs for the measurement model on the valuation are presented in the sensitivity analysis below.

The analysis shows the effects of average changes in individual parameters on the CAPP, with other inputs remaining constant (ceteris paribus). The effects are stated as percentages of the nominal value of the original HETA receivables. The impacts of changes in parameters on profit or loss are also shown, as absolute amounts stated in EUR thsd. The three inputs are Level 3 (unobservable) parameters. If the recovered amount falls below EUR 100m, this results in a 0.2 percentage point reduction in the valuation, or a loss of EUR 460thsd. A reduction in the discount rate and bringing the payout date forward by one year would result in a higher valuation.

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

31 Dec. 2020 **Sensitivity analysis: Level 3 parameters**	**Recovery, EUR m**		**Discount rate**		**Payout date, years**	
	+100	**-100**	**+1%**	**-1%**	**+1**	**-1**
Valuation sensitivity to profit or loss (%)	+0.3%	-0.4%	-0.3%	+0.3%	-0.3%	+0.4%
Valuation sensitivity to profit or loss (EUR ’000)	1,039	-1,063	-890	940	-1,025	1,079

5 ADDITIONAL NOTES TO THE STATEMENT OF PROFIT OR LOSS

5.1 Net fee and commission income

Significant accounting policies

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

In conformity with IFRS, trust transactions entered into by the HYPO NOE Group in its own name but for the account of third parties are not shown in the statement of financial position. Any fees and commissions are reported in the statement of comprehensive income.

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

2020, EUR '000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Total
Fee and commission income	**2,872**	**1,413**	**15,326**	**925**	**75**	**20,611**
Securities and custody account business	161	7	5,285	765	5	6,222
Payment transactions	540	734	5,166	66	3	6,509
Foreign exchange, foreign notes and coins, and precious metals	14	10	228	1	-	253
Other services	2,354	1	3,606	89	76	6,126
Other fee and commission income	-197	661	1,042	4	-9	1,502
Fee and commission expense	**-102**	**-33**	**-2,176**	**-937**	**6**	**-3,242**
Securities and custody account business	-14	-1	-893	-531	6	-1,434
Payment transactions	-17	-26	-1,245	-406	-11	-1,705
Other services	-	-	-28	-	-	-28
Other fee and commission expense	-70	-6	-10	-	10	-76
Total	**2,770**	**1,379**	**13,150**	**-12**	**82**	**17,369**

Fee and commission income increased in spite of the Covid-19 pandemic.

5.2 Net other operating income

EUR '000	2021	2020
Other income	**20,172**	**31,675**
Gains on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	114	329
Gains on the reversal of provisions	30	1,070
Gains on foreign currency translation	3,455	-
Gains on deconsolidation	942	201
Gains on investment property	2,527	3,108
Other rental income	316	342
Income from real estate services and property development	7,285	19,310
Income from early repayments	3,509	5,812
Sundry other income	1,993	1,501
Other expenses	**-14,851**	**-19,922**
Losses on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	-	-143
Depreciation and impairment of inventories	-	-295
Expenses arising from the recognition of provisions	-10,312	-6,514
Losses on foreign currency translation	-	-139
Losses on deconsolidation	-	-35
Losses on investment property	-1,910	-1,965
Expenses arising from real estate services and property development	-2,214	-9,617
Sundry other expenses	-414	-1,215
Total	**5,322**	**11,752**

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

Net gains or losses on deconsolidation

EUR '000	2021	2020
Cash and balances at central banks	79	-
Financial assets – AC	107	-
Positive fair value of hedges (hedge accounting)	-	329
Intangible assets	40	-
Property, plant and equipment	829	38
Current tax assets	-	3
Deferred tax assets	36	110
Other assets	2,930	2,569
Total assets	**4,021**	**3,050**
Provisions	642	214
Current tax liabilities	77	-
Other liabilities	2,758	2,652
Total liabilities	**3,477**	**2,866**
Proceeds of disposal	1,477	291
- Assets disposed of	-4,021	-3,050
+ Liabilities disposed of	3,477	2,866
Net gains on disposal of consolidated subsidiaries	**934**	**108**
Analysis of recognised income and expense (IAS 19)	-	59
FVOCI reserve	8	-
Net gains on disposal of consolidated subsidiaries through profit or loss	**942**	**167**

EUR '000	2021	2020
Consideration received in cash and cash equivalents	1,477	291
Cash proceeds from the disposal of subsidiaries	**1,477**	**291**
Amount outstanding from the corporate transaction	-	-

As at 31 May 2021, 70 persons (31 Dec. 2020: 86 persons) were employed at the deconsolidated company. For further details see Note 10 GROUP STRUCTURE AND RELATED PARTY RELATIONSHIPS.

5.3 Administrative expenses

5.3.1 Analysis of administrative expenses

Analysis of administrative expenses

EUR '000	2021	2020
Staff costs	**-55,680**	**-56,463**
Wages and salaries	-43,410	-44,651
Pensions and other employee benefit expenses	-12,270	-11,812
Other administrative expenses	**-41,393**	**-43,740**
Premises	-3,128	-3,365
Office and communication expenses	-1,218	-1,354
IT expenses	-11,192	-10,624
Legal and consultancy costs	-2,080	-2,188
Auditors: annual audit	-460	-457
Auditors: other auditing services	-59	-59
Auditors: tax consultancy services	-164	-101
Auditors: other services	-181	-104
Advertising and entertainment expenses	-4,120	-3,911
Other administrative expenses	-19,655	-22,297
Financial stability contribution (bank tax)	-2,955	-8,602
Deposit insurance fund and resolution fund	-11,214	-8,408
Cost of compliance with company law	-586	-580
Training costs	-584	-416
Vehicle and fleet expenses	-338	-482
Insurance	-488	-473
Cost of information procurement and payment transactions	-833	-699
Depreciation, amortisation and impairment	**-4,391**	**-4,642**
Intangible assets	-175	-380
Buildings used by Group companies	-1,560	-1,543
Equipment, fixtures and furnishings (incl. low value assets)	-2,245	-2,146
Right-of-use assets (IFRS 16)	-411	-572
Administrative expenses	**-101,465**	**-104,844**

The year-on-year reduction in administrative expenses was due to the continued concerted implementation of the efficiency programme. The Covid-19 pandemic also played a part in cutting administrative expenses.

In addition to the annual financial stability contribution, in 2016 all banks were required to make a one-off payment. At year-end 2016, the HYPO NOE Group opted to spread this non-recurring payment across the four years up to 2020, as permitted by section 5 *Stabilitätsabgabegesetz* (Stability Contribution Act).

Owing to the significant underfunding of the deposit insurance scheme, an additional contribution of EUR 2,069thsd to the fund was levied on 22 December 2021 to make up the shortfall as required by section 34(1) *Einlagensicherungs- und Anlegerentschädigungsgesetz* (Deposit Guarantee Schemes and Investor Compensation Act). This amount is included in the "Other administrative expenses" item.

5.3.2 Staff costs

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

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

	2021	2020
Average number of employees (incl. staff on parental leave)	718	730

EUR '000	2021	2020
Termination benefit expenses incl. provident fund for:	**-1,012**	**-1,105**
Management Board	-15	-15
Key management	-62	-88
Other employees	-934	-1,002
Pension expenses for:	**-1,316**	**-1,162**
Management Board	-96	-93
Key management	-150	-191
Other employees (including former employees)	-1,070	-877
Expenses for former officers	**-314**	**203**
Former Management Board members and their surviving dependents: allocations to/reversals of the pension provision	-	388
Former Management Board members: total remuneration	-314	-360
Former Supervisory Board members: allocations to/reversals of the pension	-	200
Former Supervisory Board members: total remuneration	-	-25

EUR '000	2021	2020
Salaries of Management Board members	**-1,102**	**-1,064**
Total remuneration of Management Board	-1,102	-1,064
Supervisory Board members' remuneration (non-employees)	**-117**	**-117**
Supervisory Board members' salaries	**-464**	**-494**
Remuneration of key management	**-5,739**	**-5,700**
Short-term employee benefits	-5,739	-5,419
Post-employment benefits	-	-279
Other long-term benefits	-	-13
Termination benefits	-	13

6 ADDITIONAL NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

Significant accounting policies

Land and buildings held to earn rentals or for expected capital appreciation are classified as investment property. In cases of mixed occupancy, significant parts of land and buildings used by third parties are likewise reported as investment property, provided that they are suitable for separate letting or sale. Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are stated as property, plant and equipment. The HYPO NOE Group held only intangible assets acquired for consideration and no self-constructed intangible assets in 2021.

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

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

Estimation uncertainties and judgements

The items “Investment property”, “Intangible assets” and “Property, plant and equipment” are measured at cost less accumulated depreciation. Depreciation and amortisation are on a straight-line basis over the normal useful lives of the assets. The following useful lives are applied:

- Buildings and building alterations 25-50 years
- Equipment, fixtures and furnishings 3-15 years
- Computer software and hardware 3-5 years
- Right-of-use assets (IFRS 16) 4-10 years

Pursuant to IAS 36, indications of impairment result in an impairment test in order to determine the recoverable amount. Impairment is recognised as necessary. In 2021 no impairments were recognised under the investment property, intangible assets or property, plant and equipment items (2020: nil).

EUR ’000	2021	2020
Other income from investment property	**2,527**	**3,108**
Rental income	2,144	2,562
Other income	383	546
Other expenses arising from investment property	**-1,910**	**-1,965**
Depreciation, amortisation and impairment	-1,567	-1,657
Expenses arising from let investment property	-338	-304
Total	**617**	**1,144**

EUR '000	31 Dec. 2021		31 Dec. 2020	
	Carrying	Fair value	Carrying	Fair value
Land and buildings	55,940	69,756	57,155	69,154
Investment property	33,518	46,674	36,693	46,262

The table below shows movements in intangible assets, property, plant and equipment, and investment property.

	Cost						
EUR '000	**1 Jan. 2021**	**Changes in scope of consolidation**	**Additions**	**Disposals**	**Transfers**	**Other changes**	**31 Dec. 2021**
Software	8,954	-365	172	-40	-	-	8,720
Goodwill	877	-845	-	-	-	-	32
Intangible assets	**9,831**	**-1,210**	**172**	**-40**	**-**	**-**	**8,752**
Land	13,004	-	-	-	-	-	13,004
Buildings	61,959	-111	429	-2,126	-	-	60,151
IT equipment	3,890	-129	362	-138	45	-	4,030
Equipment, fixtures and furnishings	31,650	-598	4,209	-401	-45	-	34,814
Right-of-use assets (IFRS 16)	3,020	-1,028	369	-269	-172	80	2,001
Other property, plant and equipment	221	-	209	-49	-	-	382
Property, plant and	**113,743**	**-1,866**	**5,579**	**-2,983**	**-173**	**80**	**114,381**
Investment property	**48,779**	**-**	**2,875**	**-5,458**	**-**	**-182**	**46,013**

	Accumulated depreciation and amortisation						Carrying amount	
EUR '000	**1 Jan. 2021**	**Changes in scope of consolidation**	**Depreciation, amortisation and impairment**	**Transfers**	**Dispo-sals**	**31 Dec. 2021**	**1 Jan. 2021**	**31 Dec. 2021**
Software	-8,713	325	-175	-	40	-8,523	241	197
Goodwill	-877	845	-	-	-	-32	-	-
Intangible assets	**-9,590**	**1,170**	**-175**	**-**	**40**	**-8,556**	**241**	**197**
Land	-19	-	-1	-	-	-19	12,985	12,984
Buildings	-17,789	26	-1,559	-	2,126	-17,196	44,170	42,956
IT equipment	-3,616	107	-195	-45	138	-3,611	273	419
Equipment, fixtures and furnishings	-25,522	375	-1,994	45	388	-26,707	6,128	8,107
Right-of-use assets (IFRS 16)	-1,199	528	-411	172	135	-775	1,821	1,226
Other property, plant and equipment	-124	-	-57	-	49	-132	97	250
Property, plant and	**-48,269**	**1,037**	**-4,216**	**173**	**2,836**	**-48,439**	**65,475**	**65,942**
Investment property	**-12,086**	**-**	**-1,567**	**-**	**1,158**	**-12,495**	**36,693**	**33,518**

	Cost						
EUR '000	**1 Jan. 2020**	**Changes in scope of consolidation**	**Additions**	**Disposals**	**Transfers**	**Other changes**	**31 Dec. 2020**
Software	8,873	-79	165	-4	-	-	8,954
Goodwill	877	-	-	-	-	-	877
Intangible assets	**9,750**	**-79**	**165**	**-4**	**-**	**-**	**9,831**
Land	13,080	-	-	-76	-	-	13,004
Buildings	62,524	-	16	-580	-	-	61,959
IT equipment	3,869	-31	123	-76	5	-	3,890
Equipment, fixtures and furnishings	31,969	-155	1,812	-1,866	-110	-	31,650
Right-of-use assets (IFRS 16)	3,351	-	41	-373	-	-	3,020
Other property, plant and equipment	118	-	68	-69	105	-	221
Property, plant and	**114,910**	**-186**	**2,060**	**-3,041**	**-**	**-**	**113,743**
Investment property	**48,664**	**-**	**-**	**-**	**-**	**115**	**48,779**

	Accumulated depreciation and amortisation						Carrying amount	
EUR '000	**1 Jan. 2020**	**Changes in scope of consolidation**	**Depreciation, amortisation and impairment**	**Transfers**	**Disposals**	**31 Dec. 2020**	**1 Jan. 2020**	**31 Dec. 2020**
Software	-8,409	76	-380	-	-	-8,713	463	241
Goodwill	-877	-	-	-	-	-877	-	-
Intangible assets	**-9,286**	**76**	**-380**	**-**	**-**	**-9,590**	**463**	**241**
Land	-94	-	-1	-	76	-19	12,986	12,985
Buildings	-16,826	-	-1,543	-	580	-17,789	45,698	44,170
IT equipment	-3,455	24	-262	-	76	-3,616	414	273
Equipment, fixtures and furnishings	-25,686	124	-1,816	105	1,751	-25,522	6,283	6,128
Right-of-use assets (IFRS 16)	-627	-	-572	-	-	-1,199	2,725	1,821
Other property, plant and equipment	-21	-	-68	-105	69	-124	97	97
Property, plant and	**-46,709**	**149**	**-4,262**	**-**	**2,553**	**-48,269**	**68,201**	**65,475**
Investment property	**-10,429**	**-**	**-1,657**	**-**	**-**	**-12,086**	**38,235**	**36,693**

6.1.1 Operating leases (with the Group as lessor)

The minimum lease payments presented as operating leases relate to the “Investment property” item in the statement of financial position. Future minimum lease payments on non-cancellable leases amount to EUR 1,708thsd per year over the next five years. In total, future minimum lease payments over the next five years amounted to EUR 28,085thsd as at 31 December 2021 (31 Dec. 2020: EUR 30,654thsd).

EUR '000	2021	2020
Operating leases		
Lease income	2,460	2,904

6.1.2 Right-of-use assets (IFRS 16)

EUR '000	31 Dec. 2021			31 Dec. 2020		
Right-of-use assets (IFRS	Carrying	Additions	Depreciation	Carrying	Additions	Depreciation
Land and buildings	1,226	369	-360	1,703	60	-469
Vehicles	-	-	-18	33	4	-51
Parking spaces	-	-	-23	75	-	-42
IT equipment	-	-	-10	10	-	-11
Total	**1,226**	**369**	**-411**	**1,821**	**64**	**-572**

EUR '000	2021	2020
Leases with the Group as lessee – supplementary information		
Payments for leases on low-value assets	-3	-2
Short-term lease payments	-584	-596
Total cash outflow for leases	-925	-1,286

6.2 Provisions

Significant accounting policies

Employee benefit provisions

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

Since 1 January 2019 the defined contribution entitlements have been administered by APK Pensionskasse AG. Under the works agreement in force at HYPO NOE Landesbank für Niederösterreich und Wien AG and HYPO NOE Leasing GmbH since 1 January 2019, 3.0% of eligible salaries are paid to the pension fund on behalf of ordinary employees, 6% on behalf of departmental heads with all-in contracts, and 9.76% on behalf of divisional heads and other management members of like status. Where there were different agreements on contributions in the past, these remain in force. In the case of employees who joined the pension scheme on or before 31 December 2012, the employer's contributions vested five years after payments began; in that of employees joining on or after 1 January 2013, they did so three years after commencement. Since 1 January 2019 eligibility for employer's contributions has been conditional on two years' service; prior service may be counted (for entrants before 1 January 2019 the waiting period was five years). At HYPO NOE Officium GmbH, the pension fund arrangements apply to one chief executive, but no contributions have yet been paid.

There are also defined benefit pension, and termination and jubilee benefit commitments. The plans are not financed by a fund. The long-term employee benefit provisions are measured using the projected unit credit method, in accordance with IAS 19. Future obligations are measured on the basis of a report by an independent actuary. Recognition in the consolidated statement of financial position is at the present value of the defined benefit obligation (DBO). Actuarial gains and losses on the termination benefit and pension provision are recognised in equity, under the "Actuarial gains and losses recognised in other reserves" item. Actuarial gains and losses on the jubilee benefit provision are shown under "Administrative expenses" (Note 5.3) in the statement of profit or loss.

Disclosures on employee benefits

Current service cost and interest cost are recognised in profit or loss, under “Staff costs” (Note 5.3.2). The actuarial gains and losses are due entirely to changes in the financial assumptions applied.

The HYPO NOE Group’s defined benefit plans give rise to pension, termination benefit and jubilee benefit obligations. IAS 19 defines pension and termination benefit obligations as benefits that are payable after the completion of employment. Jubilee benefits are classified as other long-term employee benefits. At present, the HYPO NOE Group has no defined benefit pension plans, and the remaining obligations have been transferred to an outside pension fund. The only other defined benefit obligations are to retired employees and their surviving dependents where the latter have entitlements. The remaining obligations have been transferred to an outside pension fund. The average duration of the pension obligation is 10.2 years, and that of the termination benefit obligation is 11.3 years. The HYPO NOE Group does not have any plan assets.

There are termination benefit obligations under superseded legislation. These are to employees who entered the service of the Group before 1 January 2003 and have not already received termination benefits as a result of a group transfer. Under the new termination benefit legislation, the benefits are contracted out to a termination benefit fund (see the “Expenses for provident fund” item in “Staff costs” [Note 5.3.2]). The jubilee benefits depend on employees’ length of service and are governed by the collective agreement applicable to the employment contract concerned.

Credit provisions

This item comprises provisions for credit risks such as unused but irrevocable credit lines and guarantees.

Other provisions

Allocations to and reversals of the other provisions are made to/charged to the various profit or loss items concerned on a causation basis.

Estimation uncertainties and judgements

Employee benefit provisions

Measurement of the long-term employee benefit provisions was based on the statutory retirement ages of 60 for women and 65 for men. Account was taken of the staged increase in the retirement age for women from 60 to 65.

The discount rate applied to measurement at the end of the reporting period was 1.05% p.a. (2020: 0.85% p.a.). As in previous years, this was determined on the basis of industrial bonds with highly rated issuers, and the assessments of experts in the eurozone were used to test plausibility. The interest rate used corresponds to the benchmark as at 31 December 2021, with an average residual maturity of about 11 years.

Future salary increases of 2.5% p.a. (2020: 2.3% p.a.), and future pension increases of 2.0% p.a. (2020: 2.0% p.a.) were assumed. An adjustment of 15.0% p.a. (2020: 7.0% p.a.) for employee turnover was applied to the jubilee benefit provision up to the age of 34, and from that age onwards an adjustment of 8.0% p.a. was made (2020: 7.0% p.a. regardless of age).

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

Other provisions

As the legal situation regarding negative interest on corporate loan agreements remains unchanged and the Austrian Supreme Court is yet to make a ruling that would change our risk assessment, the provision for this risk, which is included in “Other provisions”, was adjusted in line with the HYPO NOE Group’s measurement model.

Measurement is based on estimates by experts, on the Bank’s own experience, and on discounted cash flow methods. The carrying amounts reflect best estimates of the expenditure (outflow of resources) required to settle the obligations. Measurement was on the basis of scenarios reflecting assumptions as to an average settlement percentage and the expected outflow of resources in the absence of precedents. Due to the fact that, under paragraph 46 IAS 37, the payment burden would subsequently be lower owing to the interest effect, the discount rate applied in the scenarios was given a floor of 0% pursuant to paragraph 45 IAS 37. As regards the sensitivity of the provision, a notional increase in the discount rate of 0.5% would mean a reduction in the provision of EUR 364thsd.

As at 31 December 2021 the provision for negative interest rates in connection with corporate loan agreements, carried under "Other provisions", amounted to EUR 43,292thsd (31 Dec. 2020: EUR 34,068thsd). As this provision relates to a legal risk, the recognition of allocations to it forms part of other operating expense as well as any reversals of other operating income.

6.2.1 Movements in provisions

EUR '000	1 Jan. 2021	Changes in scope of consolidation	Allo-cations	Utilisation	Reversals	Discount unwinding effect	Remea-surement	31 Dec. 2021
Employee benefit provisions	**31,803**	**-382**	**639**	**-1,803**	**-**	**641**	**-1,514**	**29,384**
Provisions for pensions	19,262	-	-	-1,308	-	532	-573	17,913
Provisions for termination benefits	9,822	-382	412	-461	-	84	-805	8,670
Provisions for jubilee benefits	2,719	-	227	-34	-	25	-136	2,801
Credit provisions	**2,794**	**-**	**3,372**	**-**	**-2,824**	**-**	**-**	**3,342**
Other provisions	**34,770**	**-260**	**10,353**	**-697**	**-30**	**-**	**-**	**44,136**
Total	**69,367**	**-642**	**14,364**	**-2,500**	**-2,854**	**641**	**-1,514**	**76,862**

The decrease of EUR 2,419thsd in the employee benefit provisions is largely explained by annual remeasurement (comparison of the parameter assumptions with the actual figures). The details are given in Note "6.2.2 Disclosures on employee benefits". The "Changes in scope of consolidation" column includes the reversal of employee benefit provisions due to the deconsolidation of a consolidated subsidiary.

6.2.2 Disclosures on employee benefits

Estimation uncertainties and judgements

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

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

The last line of the table models DBO given that the parameters remain unchanged from the previous year.

Provision for pensions, EUR ’000	DBO
Carrying amounts as at 31 Dec. 2021: 0.25% discount rate increase	
Discount rate 1.3%; salary increase 2.5%; pension increase 2%	17,466
Carrying amounts as at 31 Dec. 2021: 0.25% discount rate reduction	
Discount rate 0.8%; salary increase 2.5%; pension increase 2%	18,379
Carrying amounts as at 31 Dec. 2021: 0.25% pension increase	
Discount rate 1.05%; salary increase 2.5%; pension increase 2.25%	18,379
Carrying amounts as at 31 Dec. 2021: 0.25% pension reduction	
Discount rate 1.05%; salary increase 2.5%; pension increase 1.75%	17,466
Carrying amounts as at 31 Dec. 2021: one-year increase in life expectancy	
Discount rate 1.05%; salary increase 2.5%; pension increase 2%	18,961
Carrying amounts as at 31 Dec. 2021: one-year fall in life expectancy	
Discount rate 1.05%; salary increase 2.5%; pension increase 2%	16,895
Carrying amounts as at 31 Dec. 2021: previous year’s discount rate	
Discount rate 0.85%; salary increase 2.5%; pension increase 2%	18,284

Provision for termination benefits, EUR ’000	DBO
Carrying amounts as at 31 Dec. 2021: 0.25% discount rate increase	
Discount rate 1.3%; salary increase 2.5%; pension increase 2%	8,432
Carrying amounts as at 31 Dec. 2021: 0.25% discount rate reduction	
Discount rate 0.8%; salary increase 2.5%; pension increase 2%	8,918
Carrying amounts as at 31 Dec. 2021: 0.25% salary increase	
Discount rate 1.05%; salary increase 2.75%; pension increase 2%	8,924
Carrying amounts as at 31 Dec. 2021: 0.25% salary reduction	
Discount rate 1.05%; salary increase 2.25%; pension increase 2%	8,425
Carrying amounts as at 31 Dec. 2021: previous year’s discount rate	
Discount rate 0.85%; salary increase 2.5%; pension increase 2%	9,317

EUR ’000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Present value of DBO at 31 Dec. 2019	**21,936**	**10,923**	**2,711**	**35,571**
Change in scope of consolidation	-	-241	-7	-248
Service cost	-	370	244	614
Interest cost	154	74	20	248
Payments	-1,352	-809	-59	-2,219
Actuarial gains and losses recognised in profit or loss	-	-	-191	-191
Actuarial gains and losses not recognised in profit or loss	-1,477	-496	-	-1,972
Present value of DBO at 31 Dec. 2020	**19,262**	**9,822**	**2,719**	**31,803**
Change in scope of consolidation	365	-382	-	-16
Service cost	-	412	227	639
Interest cost	167	84	25	276
Payments	-1,308	-461	-34	-1,803
Actuarial gains and losses recognised in profit or loss	-	-	-136	-136
Actuarial gains and losses not recognised in profit or loss	-573	-805	-	-1,378
Present value of DBO at 31 Dec. 2021	**17,913**	**8,670**	**2,801**	**29,384**

The following table shows the present values of the DBOs in respect of the employee benefit provisions (pensions, termination benefits and jubilee benefits) as at 31 December 2021, and the service and interest cost, as well as the underlying assumptions (discount rate, and salary and pension increases) for 2021 on which the calculations are based. The amounts for members of the Supervisory and Management Boards, and for key management are also shown.

These DBOs are subject to longevity and discount rate risk.

31 Dec. 2021, EUR '000 **Discount rate 1.05%; salary increase 2.5%; pension increase 2%**	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
DBO	17,913	8,670	2,801	29,384
Current service cost	-	368	218	586
Interest cost	188	95	32	315
Supervisory and Management boards				
DBO	-	337	59	396
Service cost	-	15	3	17
Interest cost	-	4	1	4
Key management staff				
DBO	-	675	112	787
Service cost	-	28	6	34
Interest cost	-	7	1	9

6.3 Other assets and liabilities

Significant accounting policies

"Other assets and liabilities" largely relates to other non-bank receivables and liabilities.

Other assets

EUR '000	31 Dec. 2021	31 Dec. 2020
Accruals and deferrals, and contract assets in accordance with IFRS 15	6,760	9,076
Trade receivables	4,147	1,989
Offset receivables (public loan management)	1,926	103
Offset receivables (other)	2,756	1,150
Non-consolidated subsidiaries	673	808
Sundry other receivables	884	3,765
Other assets	**17,904**	**17,390**

Other liabilities

EUR '000	31 Dec. 2021	31 Dec. 2020
Accruals and deferrals, and contract liabilities in accordance with IFRS 15	24,059	25,357
VAT and other tax liabilities (other than income tax)	6,200	7,174
Trade payables	34,775	30,694
Offset liabilities (public loan management)	2,421	2,870
Other offset liabilities	1,810	29,684
Employee liabilities	5,453	5,508
Lease liabilities in accordance with IFRS 16	1,227	1,824
Sundry other liabilities	2,536	3,126
Other liabilities	**78,481**	**106,237**

The table below shows a maturity analysis in accordance with paragraph 58 IFRS 16 for the lease liabilities contained in "Other liabilities". Further information on the HYPO NOE Group in its capacity as a lessee can be found in "Right-of-use assets (IFRS 16)" (Note 6.1.2).

EUR '000	2021	2020
Lease liabilities by term		
Up to 1 year	283	504
1 to 2 years	266	434
2 to 3 years	153	387
3 to 4 years	144	162
4 to 5 years	110	112
Over 5 years	271	226
Total	**1,227**	**1,824**

7 TAXES

Significant accounting policies

Current tax assets and liabilities are measured at current rates and the amounts expected to be paid to or recovered from the taxation authorities. HYPO NOE Landesbank für Niederösterreich und Wien AG is liable to tax in Austria. Since 2008, use has been made of the option of group taxation, with HYPO NOE Landesbank für Niederösterreich und Wien AG acting as the tax group parent company. To this end, the parent has concluded group taxation agreements governing tax contributions, reporting duties and due dates with each group member. Positive tax contributions are reported as 25% of the Group entity's profit, and negative tax contributions as 20% of the Group entity's loss.

Deferred tax assets and liabilities are measured using the balance sheet liability method. The tax base of an asset is compared with the IFRS carrying amount, and deferred tax recognised for the temporary difference. If a tax liability is probable when the temporary difference reverses, a deferred tax liability is recognised. Deferred tax assets are recognised for temporary differences that result in tax reductions when they reverse. Offsetting of deferred tax assets and liabilities is performed on a company-by-company basis. Pursuant to IAS 12, deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset within the tax group, in accordance with paragraph 74 IAS 12.

Deferred tax assets and liabilities are recognised and reversed either in profit or loss, under "Income tax expense", or in equity if the underlying item is recognised outside profit or loss (e.g. "Other reserves composed of debt instruments – FVOCI").

Estimation uncertainties and judgements

Deferred tax assets are recognised for tax loss carryforwards if it is likely that sufficient taxable profit will be available. The HYPO NOE Group's tax loss carryforwards are recognised in Austria and are available for use without time limit. The relevant calculations are based on an updated budget for each company, and a distinction is made between realisable and non-realisable tax loss carryforwards. The assumed time horizon is five years (or, in the case of project companies, a horizon equal to the contractual term). The carrying amounts of deferred tax assets arising from tax loss carryforwards and temporary differences are reviewed at the end of each reporting period. No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 2,430thsd (2020: EUR 10,338thsd).

7.1 Income tax

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

EUR '000	2021	2020
Current income tax	-12,766	-11,522
Deferred income tax	393	2,241
Total	**-12,373**	**-9,281**

7.2 Tax reconciliation

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

EUR '000	2021	2020
Profit before tax	**54,228**	**41,156**
x income tax rate	**25%**	**25%**
= anticipated income tax expense	**-13,557**	**-10,289**
Reductions in tax liability	**1,401**	**1,063**
Tax-free income from investments	244	187
Other tax-free income	402	640
Investments accounted for using the equity method	755	237
Increases in tax liability	**-1,034**	**-864**
Non-deductible expenses	-1,034	-864
Tax effects of other differences	**817**	**808**
Previous years	857	788
Prepayments	-6	-15
Differences in tax rates for Group taxation	-	14
Other adjustments	-35	22
Total	**-12,373**	**-9,281**

"Tax effects of other differences" mainly comprises deferred tax assets arising from the recognition of deferred taxes attributable to tax loss carryforwards at project companies whose earnings situation has improved significantly due to the conclusion of agreements for new real estate leasing projects.

7.3 Deferred income tax

EUR '000	Net deferred taxes, 1 Jan. 2021	Changes in scope of consolidation	Change in 2021		Net deferred taxes, 31 Dec. 2021	Assets	Liabilities
			Recognised in profit or loss	Recognised outside profit or loss			
Financial assets – HFT	-88,164	-	23,714	-	-64,450	-	-64,450
Financial assets – mandatorily FVTPL	-7,799	-	6,022	-	-1,778	-	-1,778
Financial assets – FVOCI	-17,113	-	4,724	393	-11,997	1	-11,998
Financial assets – AC	-194,983	-	51,150	-	-143,833	98	-143,931
Positive fair value of hedges (hedge accounting)	-96,841	-	33,644	-	-63,198	-	-63,198
Other assets (statement of financial position)	183	24	-235	-	-28	1,554	-1,582
Financial liabilities – HFT	86,163	-	-23,402	-	62,761	62,761	-
Financial liabilities – AC	86,446	-	-46,053	-	40,392	40,392	-
Negative fair value of hedges (hedge accounting)	200,027	-	-49,239	-	150,788	150,788	-
Other liabilities (statement of financial position)	1,025	-54	169	-256	884	4,007	-3,124
Tax loss carryforwards available for use without time limit	8,614	-	-101	-	8,513	8,513	-
less deferred tax liabilities	-	-	-	-	-	-267,764	267,764
Total	**-22,445**	**-30**	**393**	**137**	**-21,945**	**352**	**-22,297**

EUR '000	Net deferred taxes, 1 Jan. 2020	Changes in scope of consolidation	Change in 2020		Net deferred taxes, 31 Dec. 2020	Assets	Liabilities
			Recognised in profit or loss	Recognised outside profit or loss			
Financial assets – HFT	-100,422	-	12,258	-	-88,164	-	-88,164
Financial assets – mandatorily FVTPL	-4,407	-	-3,392	-	-7,799	-	-7,799
Financial assets – FVOCI	-19,460	-	1,332	1,015	-17,113	2	-17,115
Financial assets – AC	-182,319	-	-12,664	-	-194,983	1,017	-196,001
Positive fair value of hedges (hedge accounting)	-96,214	-	-627	-	-96,841	-	-96,841
Other assets (statement of financial position)	3,466	-4	-3,280	-	183	1,995	-1,812
Financial liabilities – HFT	98,990	-	-12,827	-	86,163	86,163	-
Financial liabilities – AC	82,927	-	3,519	-	86,446	86,446	-
Negative fair value of hedges (hedge accounting)	186,677	-	13,349	-	200,027	200,027	-
Other liabilities (statement of financial position)	-3,033	-126	4,679	-496	1,025	4,161	-3,137
Tax loss carryforwards available for use without time limit	8,720	-	-106	-	8,614	8,614	-
less deferred tax liabilities	-	-	-	-	-	-388,016	388,016
Total	**-25,075**	**-130**	**2,241**	**519**	**-22,445**	**408**	**-22,853**

Net deferred tax credits of EUR 137thsd (2020: EUR 519thsd) were recognised directly in equity. The basis for non-recognition of deferred tax in profit or loss for associates and joint ventures was negative by EUR 3,020thsd (2020: negative by EUR 947thsd).

The taxable temporary differences related to interests in affiliated companies, joint ventures and associates, for which no deferred tax liabilities were recognised under paragraph 39 IAS 12 (outside basis differences), totalled EUR 698thsd (2020: negative by EUR 1,449thsd).

8 RISK MANAGEMENT

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

All significant business activities derived from the Group's strategic objectives are developed with an eye to strategic risk considerations, and with a strong focus on risk-bearing capacity. The Bank attaches particular importance to assessment of risks in the light of the risk-reward ratio. Risks are not ends in themselves but are assumed in the interests of value creation and hence improved risk-bearing capacity, as well as adequate returns on risk capital. The refinement of instruments and processes aimed at maintaining an adequate risk-reward ratio is seen as an integral component of the Group's long-term business development strategy.

The Group's risk-bearing capacity is safeguarded by a balanced relationship between risks and coverage capital. To this end, eligible risk coverage capital is very carefully defined, and the confidence level for risk quantification (i.e. the probability of loss) is set at a conservative level.

The disclosure of risks is based on the Group's internal risk management and risk reporting systems.

8.1 Risk management system

Achieving business success necessarily involves taking risks. The HYPO NOE Group practises active risk transformation and risks are consciously incurred in connection with it. The Group's risk management objectives are to identify, measure, actively manage and monitor all risks arising from banking operations (credit, market, liquidity, operational, reputational and other risks).

The Group's organisational structure provides for a clear separation of front and back office functions (four-eye principle) at every level up to and including the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast an additional, independent vote that confers final approval. The internal division of responsibilities requires the unanimous approval of the front and back office functions for all business decisions that would alter the risk profile. There are also rules for the ultimate approval of exposures requiring resolutions of the Group's Supervisory Board.

In principle, all risks throughout the HYPO NOE Group are subject to a Group-wide, uniform limit system, which is constantly monitored. A Group-wide risk reporting system ensures timely, regular and comprehensive reporting of all risks. In addition to the quarterly risk management report, which provides an aggregated summary of all identified material capital risks and the available capital coverage, and the monthly analysis of insolvency risk, the Management and Supervisory Boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk-related developments.

The disclosures required by Part 8 of the CRR are made on a consolidated basis for the HYPO NOE Group, in a separate document posted on the corporate website (en.hyponoe.at).

The rules for introducing new areas of business or new products, and for entering new markets, call for an appropriate prior analysis of the relevant business risks. Without exception, transactions that entail risks are only permitted if they are explicitly regulated and authorised by the Group's risk documentation. In principle, the Group restricts its exposures to areas where it has the necessary expertise to judge and manage the specific risks involved. Where the risk situation is unclear, or where there are methodological uncertainties, the principle of prudence is given precedence.

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. In spite of the risk management methods and internal control processes in place, the Group may still be exposed to unknown and unexpected risks. Neither can the risk management techniques and strategies applied completely rule out the future occurrence of risks.

8.2 Aggregate risk management and risk-bearing capacity (ICAAP)

The identification, quantification and oversight of total Bank risk at portfolio level is the responsibility of the Strategic Risk Management Department, and encompasses the identification, measurement, aggregation and analysis of all the risks assumed, assessment of the adequacy of economic capital in relation to the risk profile, and the use and ongoing refinement of appropriate risk management systems.

The minimum capital requirement is calculated using the standardised approach set out in Pillar 1 of the Basel regulations. All material risks are actively managed as part of the Group's internal risk management process (Pillar 2) and in compliance with the disclosure requirements (Pillar 3).

Maintenance of adequate risk-bearing capacity is monitored by two control loops:

1. The economic gone concern control loop provides creditor protection against exposure to customer liquidation. Risks are measured at a high confidence level of 99.9% with a one-year holding period, and compared with the risk coverage capital available in the event of liquidation.

2. The going concern management control loop is designed to ensure that the Bank survives as a going concern. Here, risks are measured at a lower confidence level of 95% with a one-year holding period, and compared with the coverage capital realisable without endangering survival.

The HYPO NOE Group's risks and risk coverage capital for the purposes of the economic control loop as at 31 December 2021 and as compared with the previous year are shown below:

Type of risk	Economic risk, 31 Dec. 2021	Economic risk, 31 Dec. 2020
Credit risk	**359,669**	**354,795**
Counterparty risk	290,787	283,421
FX risk (customer perspective)	1,694	2,289
Investment risk	8,984	8,872
Concentration risk	18,789	20,151
Macroeconomic risk	38,412	38,988
Repayment vehicle risk	1,002	1,074
Market risk	**56,688**	**62,733**
Interest rate risk	21,519	24,908
Credit spread risk	33,605	35,763
Credit valuation adjustment risk	873	1,365
FX risk (Bank perspective)	41	47
Risk – small trading book	650	650
Liquidity risk	**6,700**	**6,900**
Operational risks	**24,456**	**23,119**
Risk buffer	**57,665**	**60,324**
Model risk	22,376	22,377
Reputational risk	8,950	8,951
Other non-quantified risks	26,339	28,996
Total	**505,178**	**507,870**

	Allocated to RBC as at 31 Dec. 2021	Allocated to RBC as at 31 Dec. 2020
Economic core capital	729,127	691,077
Undisclosed reserves/liabilities	26,184	32,219
Economic risk-bearing capacity (RBC)	**755,311**	**723,296**
Utilisation of econ. RBC	**67%**	**70%**

As at 31 December 2021 the Group was utilising 66.9% of its risk-bearing capacity (including an adequate risk buffer), which was marginally higher than at 31 December 2020 (70.2%).

8.2.1 Management of the internal risk coverage capital

As part of the aggregated banking risk management system, own funds are calculated at the consolidated Group level as defined by the CRR. The own funds figures from the Common Reporting Framework (COREP) are thus converted into economic risk-bearing capacity. Undisclosed economic reserves and liabilities arising from securities are also included in the risk coverage capital. Changes are driven both by the volatility of the undisclosed reserves and liabilities, and by the resolutions of the Annual General Meeting with respect to dividend distributions, allocations to reserves and any capital increases.

The main components of the HYPO NOE Group's economic risk-bearing capacity are as follows:

- Tier 1 capital, and
- Undisclosed reserves/liabilities arising from securities (AC)

The following components are currently NOT included in the Group's economic coverage capital:

- Subordinated and Tier 2 capital (except for certain predefined stress situations)
- Interim profits and losses for the current financial year

The exclusion of subordinated and Tier 2 capital from the risk coverage capital serves to protect the Group's creditors. In the event of liquidation, the interests of subordinated creditors are protected, which represents prudent banking practice.

In accordance with the going concern control loop, meeting the own funds requirements is also a strict condition for ensuring that the Bank remains a going concern.

8.2.2 Recovery plan

Under the *Bundesgesetz über die Sanierung und Abwicklung von Banken* (Federal Act on the Recovery and Resolution of Banks), which came into force on 1 January 2015, the HYPO NOE Group is required to draw up a recovery plan. The embedding of the plan in day-to-day operations pursuant to the Act is integral to the Group's risk and capital management framework.

At the core of the expanded risk management and overall control processes implemented under the recovery plan, specific indicators and restructuring and communication measures will be established, as well as robust escalation and decision-making processes within the recovery governance structure that supplement the existing control measures in the event of an impending or unfolding crisis.

Early warning and recovery indicators are an integral part of the reporting within the relevant management bodies.

The 2021 review of the Group's recovery plan under the Federal Act on the Recovery and Resolution of Banks was completed and the approved document submitted to the regulator on schedule. The 2021 review again covered all of the aspects required by the Act. The regulator did not make provisions for relief measures related to the Covid-19 pandemic. The Bank was required to provide details on two recovery plan scenarios (as opposed to three), and both scenarios had to be related to the financial and economic effects of the Covid-19 crisis.

8.2.3 Bank-wide stress test

As part of the internal Bank-wide stress testing process, a detailed economic study compiled every year provides the basis for the annual analysis of scenarios relevant to the HYPO NOE Group's business model. The impacts of the scenarios on credit, investment and liquidity risk, net interest income and credit spreads, as well as on the recognition of additional risk provisions pursuant to IFRS 9 and expected defaults, are simulated at Group level to determine both regulatory and economic risk-bearing capacity. The results of the stress test and potential countermeasures are reported to the Management Board and presented to the Risk Management Committee (RICO) and Risk Committee.

In addition, reverse stress tests are carried out annually, and stress tests may also be held on a case-by-case basis.

8.2.4 Basel III/IV

Following rigorous tests, the amendments to the regulations collectively referred to as CRR II, which entered into force on 28 June 2021, were implemented in the Group's operations with effect from 30 June 2021. Various follow-up activities as well as technical implementation were necessary in the third and fourth quarters. Work related to the new disclosure regulations, which will only be applied in the annual financial statements, is due for completion in the first quarter of 2022. With regard to BCBS 424, which was published in late 2017 and requires – among other things – a full review of the standardised approach to credit risk, the EU Commission published its initial proposals to the European Parliament and the Council for the amendment of Regulation (EU) No 575/213 (referred to as CRR III) at the end of October 2021. The Bank immediately launched a comprehensive analysis of the proposals and this fed into the project planning process which began before the end of the year.

8.2.5 Upgrading risk management systems

In 2022 the HYPO NOE Group will again refine its infrastructure, processes and methodologies, in order to meet current and future regulatory requirements, and to ensure that internal risk control systems remain compatible with the Group's permitted risk tolerance and its business objectives.

8.2.6 Minimum requirement for own funds and eligible liabilities (MREL)

As a result of the annual update of the MREL, in June 2021 the following minimum requirements were established for the HYPO NOE Group by order of the FMA:

- 5.90% of leverage ratio exposure (31 Dec. 2020: 5.90%) or
- 20.92% of total risk exposure (31 Dec. 2020: 24.63%)
- EUR 850m in MREL-capable liabilities (31 Dec. 2020: EUR 759m)

The Group made use of a general prior permission (GPP) in order to reduce the level of instruments for eligible liabilities. The approval notice issued by the resolution authority means that in 2022 the HYPO NOE Group is permitted to repurchase up to 10% of its eligible liabilities, totalling around EUR 288m, without obtaining further regulatory approval. The approved amount of eligible liabilities repurchased and the outstanding amount of such liabilities can no longer be included in the MREL calculations. The Group continues to comfortably meet the minimum requirements established by the regulator, as there are sufficient eligible liabilities and own funds.

8.3 Credit risk

Information on credit risk can be found in Note 4 FINANCIAL INSTRUMENTS AND CREDIT RISK.

8.4 Market risk

8.4.1 Market risk management

Market risks are potential losses resulting from adverse changes in the net asset value of exposures due to changes in market prices.

Market risks specific to banking include:

- Interest rate risk in the banking book
- Credit spread risk
- Foreign exchange risk from a banking perspective
- Option risk (volatility risk)
- Trading book risk
- Basis risk
- Credit valuation adjustment (CVA) risk
- The concentration risk inherent in market risk
- Commodity price risk

- Share price risk
- Fund price risk
- Sustainability risk

The HYPO NOE Group's market risk management strategy sets out the strategic guidelines for managing market risks specific to banking.

The main market risks facing the HYPO NOE Group are interest rate risk in the banking book, and credit spread risk (in particular in the nostro portfolio) arising in part from ordinary banking activities such as fixed-interest lending and management of liquidity reserves. The HYPO NOE Group has implemented detailed oversight and control processes to address these risks. In the course of its business operations, the HYPO NOE Group is exposed to foreign exchange and option risks (e.g. embedded upper and lower interest rate limits) which are monitored and managed. The use of derivatives to hedge interest rate risk can give rise to basis risk, which is likewise closely watched. Risk management procedures and methods have also been put in place to deal with the CVA risk associated with derivatives. The concentration risk inherent in market risk chiefly arises from own investments made to control the liquidity reserve, and is managed and limited together with the latter. The Bank also uses the small trading book to trade on its own account. Appropriate and transparent limits that reflect risk appetite and monitoring processes have been introduced in order to ensure compliance with legal requirements and internal risk management policies.

The HYPO NOE Group has not earmarked any internal risk capital for commodity, share price or fund risk, and consequently no material risks may be incurred in these market risk categories. Sustainability risk is limited and managed by applying inclusion and exclusion criteria, among other measures.

The HYPO NOE Group's market risk strategy is based on the principles set out below, which are enshrined in the Group's risk strategy. These principles guarantee capital coverage of the market risks incurred at all times, and underpin the related monitoring, control and transparency of the individual market risk positions as follows:

- Identifying and regularly evaluating market risks
- Specifying and regularly reviewing the suitability of models and processes for measuring market risks
- Quantifying market risk on the basis of the processes established
- Determining Management's risk appetite and tolerance with respect to the various individual market risk categories, taking account of risk and reward expectations
- Identifying and implementing legislative and regulatory frameworks
- Appropriately limiting and monitoring market risk on the basis of the specified risk tolerance
- Goal-driven reporting

8.4.2 Interest rate risk in the banking book

When measuring, managing and restricting interest rate risk, the HYPO NOE Group distinguishes between period net interest income risk – which mainly tracks the risk of net interest income fluctuations in a given period – and present value risk, which measures decreases in the asset value of a particular portfolio due to interest-rate-induced changes in present value.

A major objective for the HYPO NOE Group is monitoring and managing the interest rate risk arising from aggregate net interest income at Bank level and sub-portfolios relevant to IFRS earnings and equity, which are prime indicators of performance in the accounts for a given period. At the same time, the present value of interest rate risk across the entire banking book is managed to ensure conformity with the Bank's total risk-bearing capacity and supervisory requirements (OeNB interest rate risk statistics and identifier for an outlier bank).

Interest rate risk management

Monitoring and quantifying interest rate risk is the responsibility of an independent back office department, Strategic Risk Management. This scrutiny includes watching interest rate gaps, calculating present values and performing sensitivity analyses. Positions with interest rates fixed for indefinite periods and associated assumptions on prepayments are modelled and regularly assessed on the basis of statistical models and/or expert estimates. Regular analyses are also carried out for the entire banking book and for sub-portfolios.

The management of intra-year interest rate risk positions is the responsibility of the Treasury/Capital Market/FI Department, while the ALM team handles management of long-term interest rate risk positions as well as implementation of the Bank's interest rate risk management strategy. The main objective is to make stable, long-term contributions to net interest income, while also managing the present value of interest rate risk in terms of its impact on earnings.

Strategic long-term positions in the banking book that are sensitive to interest rates are discussed by the Asset-Liability Management Committee at the recommendation of ALM and – subject to approval by the Management Board – managed by the Treasury/Capital Market/FI Department. Medium-to-long-term open positions taken by the Bank in the light of interest rate expectations may only be entered into in accordance with decision-making authorisations and defined 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.

The HYPO NOE Group makes use of fair value hedges that qualify for hedge accounting in order to guard against interest rate risk arising from structured positions and significant fixed-interest positions. Low-value transactions are combined and hedged by means of layered hedges (see Note 4.6 Derivatives and hedge accounting). Interest rate swaps may be used as risk management instruments. Alternatively, the Bank uses new investment and refinancing business as a means of managing structured fixed-interest risk positions.

Banking book

The present value of interest rate risk across the banking book as a whole is subject to an absolute limit for the purposes of internal risk measurement. This is set during the annual risk budgeting process, on the basis of the Bank's total risk-bearing capacity and risk appetite, and in accordance with the limits established by the OeNB interest rate risk statistics and the provisions for identifying outlier banks.

The present value of interest rate risk for all interest-sensitive positions (i.e. excluding non-interest-bearing equity and interest-free investments) is measured for the banking book as a whole, and is limited, monitored and kept to the preordained limits. The basis of the measurement is the effect of a range of interest rate scenarios and shifts on the net asset value.

Risk measurement as required by the OeNB interest rate risk statistics is carried out in accordance with the regulatory requirements.

Internal interest rate risk is assessed on the basis of gap analyses and interest rate sensitivities. The worst-case change in present value is calculated for the entire banking book, on the basis of the six EBA scenarios, with the four scenarios subject to the EBA interest rate floor also included without the floor. These ten scenarios are scaled up to a confidence level of 99.9% for the liquidation approach and to 95% for the going concern approach, with a holding period of one year. Parallel shifts and twists in the yield curve (on money and capital markets) are also modelled in the interest rate scenarios. When aggregating the interest rate risks associated with the various currencies, negative present value changes are weighted at 100% and positive present value changes at 50%.

The risk of fluctuations in net interest income is measured by repricing risk. Repricing risk measures movements in net interest income arising from differences in variable reference rates or differences in rate fixing dates where the reference rates are the same. Repricing risk is individually determined for a 12-month period for each currency, scenario, indicator and product. As with internal interest rate risk, the calculation is based on the six EBA scenarios, and the four EBA scenarios without interest rate floors, and a constant balance sheet structure is assumed. It is assumed that new transactions will be concluded to replace expiring positions for the same indicator. For fixed-interest positions, it is assumed that new transactions are concluded at the six-month Euribor rate, as decisions on new fixed-interest positions are taken by ALM on the basis of the market situation and expectations, and not of expiring fixed-interest positions.

Individual portfolios

As is the case for the banking book as a whole, limits are set and monitored in the control system for interest-sensitive portfolios for which measurement effects are recognised in the IFRS statement of profit or loss or in IFRS equity. Risk assessment and limit setting are based on present value sensitivities derived from the six EBA scenarios without an interest rate floor, scaled up to a confidence level of 95%.

Current interest risk situation: total banking book

The OeNB statistics show interest rate risk remaining low relative to the regulatory limits (20% of eligible capital). The following table shows the results of the OeNB regulatory interest rate risk statistics and the performance indicator identifying an outlier bank as at 31 December 2021 and 31 December 2020. Equity adjusted for retained profit was used to calculate the values as at 31 December 2020. The indicators as at 31 December 2021 are based on equity including retained profit.

OeNB regulatory interest rate risk statistics	31 Dec. 2021	31 Dec. 2020
OeNB interest rate risk statistics	4.61%	4.92%
Supervisory outlier test	2.68%	3.42%

The tables below present the interest rate risk positions taken by the HYPO NOE Group as at 31 December 2021 and 31 December 2020.

Interest rate risk positions (assets – liabilities), 31 Dec. 2021, EUR ’000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	1,859,402	-584,646	1,274,756
>1-3 months	-1,134,659	108,250	-1,026,409
>3-6 months	2,422,130	-2,471,444	-49,314
>6 months-1 year	308,827	210,082	518,908
>1 year-2 years	-1,057,540	1,221,025	163,485
>2-3 years	-500,996	453,588	-47,409
>3-4 years	-453,753	395,987	-57,767
>4-5 years	-663,909	343,160	-320,750
>5-7 years	-631,058	270,883	-360,174
>7-10 years	23,968	228,567	252,534
>10-15 years	220,970	-70,059	150,911
>15-20 years	336,606	-229,540	107,066
Over 20 years	39,254	-10,069	29,185

Interest rate risk positions (assets – liabilities), 31 Dec. 2020, EUR ’000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	2,560,719	-738,607	1,822,111
>1-3 months	637,194	-108,956	528,238
>3-6 months	2,024,248	-2,543,010	-518,762
>6 months-1 year	-2,136,975	566,377	-1,570,598
>1 year-2 years	-635,050	640,679	5,629
>2-3 years	-930,177	1,139,195	209,018
>3-4 years	-523,932	477,224	-46,708
>4-5 years	-444,479	441,430	-3,049
>5-7 years	-674,893	420,706	-254,187
>7-10 years	400,794	-124,880	275,914
>10-15 years	159,130	-22,410	136,719
>15-20 years	320,484	-274,346	46,137
Over 20 years	18,657	1,167	19,823

As at 31 December 2021, risk utilisation was 39% of the total limit of EUR 55m (31 Dec. 2020: 45% of the total limit of EUR 55m). The tables below show the results of the various interest rate scenarios for the HYPO NOE Group, and how they are reflected in the internal limits, as at 31 December 2021 and 31 December 2020. For the internal risk measurement process, the six EBA scenarios with an interest rate floor and the four without a floor are applied and scaled up to a confidence level of 99.9%.

Internal interest rate scenario analysis, total banking book, 31 Dec. 2021, EUR '000	Change in present value	Scaled up to 99.9%
Scenario I: EBA parallel up	-13,955	-15,351
Scenario II: EBA parallel down	12,497	13,747
Scenario III: EBA steepener	-19,562	-21,519
Scenario IV: EBA flattener	14,739	16,213
Scenario V: EBA short rate up	6,710	7,381
Scenario VI: EBA short rate down	-4,052	-4,457
Scenario VII: EBA parallel down without interest rate floor	63,450	69,795
Scenario VIII: EBA steepener without interest rate floor	19,775	21,753
Scenario IX: EBA flattener without interest rate floor	17,706	19,477
Scenario X: EBA short rate down without interest rate floor	1,831	2,014
Internal risk	-19,562	-21,519
Warning level (95% of limit)	**-52,250**	
Limit/utilisation (%)	**-55,000**	**39.12%**

Internal interest rate scenario analysis, total banking book, 31 Dec. 2020, EUR '000	Change in present value	Scaled up to 99.9%
Scenario I: EBA parallel up	-10,572	-11,629
Scenario II: EBA parallel down	2,093	2,302
Scenario III: EBA steepener	-22,644	-24,908
Scenario IV: EBA flattener	13,283	14,612
Scenario V: EBA short rate up	13,254	14,579
Scenario VI: EBA short rate down	1,240	1,363
Scenario VII: EBA parallel down without interest rate floor	64,007	70,408
Scenario VIII: EBA steepener without interest rate floor	18,345	20,180
Scenario IX: EBA flattener without interest rate floor	23,932	26,325
Scenario X: EBA short rate down without interest rate floor	-9,221	-10,143
Internal risk	-22,644	-24,908
Warning level (95% of limit)	**-52,250**	
Limit/utilisation (%)	**-55,000**	**45.29%**

Effects of the IBOR reform on risk management processes

In late 2019, the HYPO NOE Group set up an interdepartmental project team in order to implement and enable the Group to comply with the requirements arising from the EU Benchmarks Regulation and the transition to risk-free interest rates. In order to implement the technical specifications, an overarching project was also initiated by the Allgemeines Rechenzentrum (ARZ) shared accounting service centre. HYPO NOE Landesbank is closely involved in this project.

The main impact of the reform for the HYPO NOE Group relates to benchmark-based foreign currency loans, the volume of which the Bank is aiming to reduce. The vast majority of the transactions concerned are in Swiss francs, and there are smaller volumes denominated in Japanese yen and pounds sterling. For transactions tied to the US dollar LIBOR, the relevant LIBOR reference rates will be applied until 30 June 2023, when the benchmark will cease to be published.

In the lead-up to the changeover, the HYPO NOE Group informed its customers of the reform and offered them alternative arrangements such as conversion of loans to euro or fixed interest-rate agreements. For all transactions remaining after 31 December 2021, the IBOR reforms give rise to risks that are specified in the contingency plan prepared in accordance with the Benchmarks Regulation. For instance, the reform may result in measurement differences in the prices of financial instruments, or basis risk may arise in relation to hedged positions due to differences in the interest rate conventions applied to the underlying and the hedge. In addition to market risks, there are also legal risks associated with transactions for which there is no legally regulated successor to the current reference rate.

However, as the effects of the reform on the HYPO NOE Group are immaterial, and they principally relate to transactions which the Group is in the process of reducing, no significant adjustments have been made to the risk strategy or risk management systems on account of the IBOR reform.

8.4.3 Credit spread risk

Credit spread risk is the impact of adverse changes in risk premiums on securities, and of the related loss of net asset value. This type of risk plays a particularly important role in connection with the Group’s own investments. The capital requirements resulting from credit spread risk are determined using a historical value-at-risk (VaR) model for the entire nostro portfolio in the banking book, and for the securities portfolio in the small trading book. VaR is calculated on the basis of historical credit spread scenarios, which are estimated with the aid of IBoxx indices. The changes arrived at in this way are then aggregated, and this distribution of losses is used to calculate a loss quantile of 99.9% and 95%. The historical simulation methodology uses a five-year rolling time window. This indicator measures the potential loss in value from widening spreads that would be realised, from a liquidation perspective, if the entire securities portfolio were disposed of. The table below shows the results of the credit spread VaR analysis for the HYPO NOE Group as at 31 December 2021 and 31 December 2020, assuming a holding period of one year and a confidence level of 99.9%.

Credit spread, VaR (holding period of one year, confidence level of 99.9%), EUR ’000	31 Dec. 2021	31 Dec. 2020
Nostro portfolio, total	-33,605	-35,763

There were no significant changes in the methods used to measure and monitor credit spread risk during the reporting period.

8.4.4 Foreign exchange risk

The strict limits on open foreign exchange positions reflect the HYPO NOE Group’s conservative risk policies. Refinancing in the same currency and the use of FX derivatives serves to effectively eliminate foreign exchange risks for the Group. Consequently, under the Capital Requirements Regulation, as at 31 December 2021 the Group was not subject to the minimum capital requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign exchange positions is below this figure.

The residual foreign exchange risk for all open currency positions is regularly measured and monitored, using a VaR model based on foreign currency fluctuations over time. Using a variance/covariance approach, correlations between the various currencies are also considered in the calculations. More recent developments in the time series are weighted more heavily than those further back in the past, with a decay factor of 0.94. The table below shows the results of the currency-position VaR analysis for the HYPO NOE Group as at 31 December 2021 and 31 December 2020, 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. 2021	31 Dec. 2020
Currency risk exposure, total	-41	-47

There were no significant changes in the methods used to measure and monitor foreign exchange risk during the reporting period.

8.4.5 Options risk

Volatility risks in the HYPO NOE Group chiefly arise from upper and lower interest rate limits on loans and deposits. The management and oversight of these positions forms part of the management of interest rate risk on the banking book.

The Bank normally aims to prohibit any option positions with a significant bearing on IFRS fair value. Option derivatives are only employed to a very limited extent, to manage interest rate risk and to optimise the mismatch contribution. Limits are imposed by implementing fair value interest rate risk limits.

8.4.6 Trading book risk

The Group does not engage in any business that requires it to maintain a large trading book as defined by the CRR. It maintains a small trading book in accordance with Article 94 CRR, and the volume of business is accordingly limited, in line with that Article. In addition, sensitivity limits and a maximum loss limit have been set (31 Dec. 2021: EUR 650thsd; 31 Dec. 2020: EUR 650thsd), including an early warning indicator (31 Dec. 2021: EUR 300thsd; 31 Dec. 2020: 300thsd) that halves the sensitivity limit when it is triggered. Daily observation is performed by the Strategic Risk Management Department. No positions were taken up in the small trading book in 2021.

8.4.7 Basis risk

Information on basis risks can be found in Note 4.6 Derivatives and hedge accounting.

8.4.8 CVA/DVA risk

When calculating the fair value of derivative instruments, the CVA for counterparty risk and the debt valuation adjustment (DVA) for the Bank's own credit risk must be taken into account. The CVA is calculated using customary methods: expected exposure is taken into account by means of a Monte Carlo simulation, and the probability of default feeds into the calculation by applying appropriate global CDS curves. CDS curves are assigned to the respective instruments on the basis of the customer rating and sector. The effects of the CVA and DVA are recognised in the consolidated statement of comprehensive income.

CVA risk relates to decreases in present value as a result of fluctuations in the CVAs for OTC derivatives with CVA adjustments, which can in turn lead to fluctuations in the "Net measurement gains or losses" item in the statement of profit or loss. CVA risk is measured and monitored on a monthly basis. As part of the Bank-wide economic banking risk observation, swings in the CVAs of relevant positions over time are measured and included as risks in the calculation of risk-bearing capacity. The daily movements in global CDS curves are the basis for measuring these fluctuations. Risk measurement uses a historic value-at-risk approach, with a holding period of one year and a monitored time series of five years. All derivatives without collateral agreements are included in measurement. The HYPO NOE Group mainly concludes derivative contracts via central clearing houses or collateralises them by means of a credit support annex (CSA) in order to reduce credit risk and CVA volatility risk.

8.4.9 On-balance-sheet market risk: sensitivity analysis

Estimation uncertainties and judgements

The risk measurement methods used meet the legal and economic requirements, and are also internally validated. All risk measurement methods have their limits, and higher losses than those shown by the risk measurements cannot be ruled out. The amounts shown are not forecasts or indications of how these amounts may behave in the future. The main limitations of the methods used are discussed below.

The following factors need to be borne in mind when employing sensitivity analyses like those used to determine risk:

- The scenarios may not be good indicators of future events, especially where they represent extremely positive or extremely negative situations. In such cases, the scenarios could lead to risks being underestimated or overstated.
- The assumptions about changes in the risk factors and the relationships between them (e.g. simultaneous twists in the euro and Swiss franc yield curves) may turn out to be false, particularly if extreme market developments

occur. There is no standard methodology for devising interest rate scenarios, and applying other scenarios would generate different results.
- The scenarios applied do not provide any indications of the potential losses in situations not modelled by them.

In the case of the value-at-risk techniques applied, the following drawbacks of the methodology are among those that should be borne in mind:

- The value at risk stated for a given confidence level says nothing about the potential loss beyond the assumed confidence level.
- The model used takes account of historical data within the stated five-year time series. The choice of a different period would alter the results.
- The correlations derived from the time series and the risk distribution may change in future.

Besides the risk determination methods described, stress tests are performed in order to reveal risks present beyond the regular risk measurement schedule.

Market risk sensitivities in respect of comprehensive income and of equity are presented below. All sensitivities are presented using a VaR approach (95% confidence level, holding period of one year) as described above for the various types of risk. Repricing risk shows the impact on net interest income.

IFRS fair value sensitivities, 31 Dec. 2021, EUR ’000	Profit/loss sensitivities			OCI sensitivities		
	VaR	Limit	Utilisation	VaR	Limit	Utilisation
Present value interest rate risk	-1,126	4,000	28%	-1,025	4,000	26%
Credit spread risk	-3,406	7,000	49%	-2,581	7,000	37%
CVA risk	-388					
FX basis risk	-1,038	3,000	35%		5,000	
Banking book risk	-5,958			-3,607		
Trading book interest rate risk	-					

IFRS fair value sensitivities, 31 Dec. 2020, EUR ’000	Profit/loss sensitivities			OCI sensitivities		
	VaR	Limit	Utilisation	VaR	Limit	Utilisation
Present value interest rate risk	-1,611	7,000	23%	-1,271	5,000	25%
Credit spread risk	-4,693	12,000	39%	-3,705	15,000	25%
CVA risk	-612					
FX basis risk	-1,429	5,000	29%		5,000	
Banking book risk	-8,344			-4,977		
Trading book interest rate risk	-					

Interest income sensitivities, EUR ’000	31 Dec. 2021	31 Dec. 2020
Scenario I: EBA parallel up	8,132	32,843
Scenario II: EBA parallel down	3,301	3,262
Scenario III: EBA steepener	4,002	3,020
Scenario IV: EBA flattener	4,563	27,407
Scenario V: EBA short rate up	8,197	40,005
Scenario VI: EBA short rate down	3,506	3,257
Scenario VII: EBA parallel down without interest rate floor	19,400	21,286
Scenario VIII: EBA steepener without interest rate floor	13,929	10,772
Scenario IX: EBA flattener without interest rate floor	2,709	28,613
Scenario X: EBA short rate down without interest rate floor	22,516	19,614
Worst case scenario	2,709	3,020

8.5 Liquidity risk

Liquidity risk is defined as the danger that the HYPO NOE Group will be unable to meet its present and future payment obligations in full and on time, or may only be able to do so at prohibitive cost.

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

The table below shows a maturity analysis of the Group’s financial liabilities, including existing financial guarantees extended for derivative financial liabilities and outstanding irrevocable loan commitments as at 31 December 2021 and 31 December 2020. The presentation is based on the following assumptions:

- Undiscounted contractual cash flows (including payments of principal and interest) are shown
- In the case of liabilities with variable cash flows, the future cash flows are calculated on the basis of forward rates
- Liabilities are reported at the earliest possible date they can be called in by the counterparty (sight deposits and savings deposits are therefore shown in the earliest maturity band, regardless of their actual maturities)
- Financial guarantees are assigned to the earliest maturity band
- Finance lease obligations are included at the expected payment dates
- Outstanding irrevocable loan commitments are included at the earliest possible drawing date
- Liabilities arising from derivative transactions based on master agreements do not include any netting agreements
- Cash flows from interest rate derivatives are included on a net basis
- Gross values are shown for repayments of obligations arising from foreign exchange derivatives and forwards
- In the interests of consistency, the liabilities are presented in accordance with the IFRS balance sheet format; the key items from a liquidity perspective are also listed by internal categories. Following the adjustment in presentation in 2021, the same breakdown is used in the comparative figures for 2020.

Financial liabilities: maturity analysis, 31 December 2021, EUR '000

Liabilities	(Notes)/internal liquidity categories	0-1M	1-3M	3-12M	1-5Y
Financial liabilities – HFT	**4.4**	**80,523**	**103,098**	**-**	**561,612**
Derivative liabilities		80,523	103,098	-	561,612
Financial liabilities – AC	**4.4**	**2,940,906**	**311,567**	**1,402,818**	**7,649,190**
OeNB tenders/GC Pooling repos		-	-	50,000	1,984,000
Deposits from financial institutions		19,527	25,296	86,287	48,872
Liabilities arising from collateral received for derivatives		42,355	-	-	-
Customer deposits		2,846,944	98,104	515,351	142,201
Liabilities to development banks and multilateral development banks		3,761	721	10,324	156,690
Unsecured own issues		4,334	134,452	153,564	2,510,357
Secured own issues		23,986	52,993	587,292	2,807,070
Contingent liabilities		**1,713,739**	**-**	**-**	**-**
Financial guarantees		70,213	-	-	-
Loan commitments		1,643,526	-	-	-
Other positions affecting liquidity		**8,000**	**35,000**	**103,500**	**180,000**
Finance lease obligations		8,000	35,000	103,500	180,000

Financial liabilities: maturity analysis, 31 December 2020, EUR ’000

Liabilities	(Notes)/internal liquidity categories	0-1M	1-3M	3-12M	1-5Y
Financial liabilities – HFT	**4.4**	**7,623**	**177,472**	**42,488**	**513,535**
Derivative liabilities		7,623	177,472	42,488	513,535
Financial liabilities – AC	**4.4**	**2,845,100**	**301,525**	**1,759,407**	**6,966,325**
OeNB tenders/GC Pooling repos		-	-	-	1,849,000
Deposits from financial institutions		4,987	63,585	59,881	-
Liabilities arising from collateral received for derivatives		75,747	-	-	-
Customer deposits		2,711,009	164,325	945,466	188,208
Liabilities to development banks and multilateral development banks		2,168	464	13,002	164,658
Unsecured own issues		27,653	64,270	71,475	2,193,805
Secured own issues		23,537	8,880	669,584	2,570,653
Financial liabilities – FVO	**4.4**	**-**	**-**	**-**	**-**
Contingent liabilities		**1,078,697**	**-**	**-**	**-**
Financial guarantees		128,231	-	-	-
Loan commitments		950,466	-	-	-
Other positions affecting liquidity		**9,418**	**27,000**	**87,000**	**300,000**
Finance lease obligations		9,418	27,000	87,000	300,000

The majority of derivative liabilities are collateralised with cash, or arise due to the inclusion of gross values for foreign exchange derivatives or forwards. As a result, actual net liquidity outflows are lower than those shown in the maturity analysis. In connection with derivatives being cleared or with CSAs, the general risk of remargining is taken into account in the calculation of the time to wall, which is considered in the internal operational liquidity stress tests. This is based on the largest net change in the daily balance figures over the past two years, and an interest rate floor of 0% for the ten-year euro swap rate including a buffer. The worst-case liquidity outflow resulting from remargining of derivatives with CSAs for the years to 31 December 2021 and to 31 December 2020, expressed in EUR thsd, is shown in the table below.

31 Dec. 2021	31 Dec. 2020
184,441	175,245

Irrevocable loan commitments include unused credit lines and loan facilities, as well as revolving credit lines, such as overdraft facilities and cash advances, where there is a strong likelihood that the unutilised loans will be drawn on within the contractually agreed period. By contrast, credit lines can be used at any time, implying a higher degree of uncertainty with regard to utilisation and the maturity date. Public sector customers with which the Bank has close relationships account for a significant proportion of the unused credit lines. Planned use by the customer is regularly coordinated with the front office units concerned. This in turn facilitates forward planning of the Bank’s refinancing requirements.

The Group’s main sources of finance are secured and unsecured issues, as well as deposits from retail, SME and institutional customers. OeNB tenders and GC Pooling repos are primarily used to manage liquidity.

The concentration of deposits from individual retail customers is usually low in volume terms, so the Bank faces no significant concentration risk in this segment. By contrast, customer concentrations are possible in the case of institutional customers, some of which are in a position to make large investments. The Bank normally seeks to include different and longer-term maturity bands in the mix by offering appropriate products. In liquidity risk management, the risk that institutional customer deposits will not be extended on maturity is taken into account in the internal operational liquidity stress tests used to determine time to wall on a scenario basis in the light of experience of past crises.

The ten largest fixed-term deposits made by institutional customers for the year to 31 December 2021 and the year to 31 December 2020 were as follows (EUR thsd):

	31 Dec. 2021	31 Dec. 2020
1	115,000	130,000
2	90,000	125,000
3	50,000	100,000
4	49,450	90,000
5	41,000	82,000
6	35,000	80,000
7	30,000	50,000
8	26,000	50,000
9	25,000	49,450
10	19,025	35,000

The HYPO NOE Group seeks to achieve a balanced refinancing mix. Collateralised and uncollateralised bond issues are currently an integral component of the refinancing structure, and will remain so in future. Unlike the other deposit-taking business, issuance allows the Bank to access long-term refinancing and offset the maturity transformation risk that results from long-term lending. Care is taken to avoid concentrations in the maturity profile of issued debt.

The secured capital market accounts for a substantial portion of the Group's total refinancing, and will continue to do so in future. It exhibits a high degree of stability even in times of crisis. Another major advantage is the fact that the free collateral in the cover pools can be converted into assets eligible as collateral for OeNB tenders and thus used to provide liquidity in a crisis.

Fixed-term interbank deposits are another, albeit less important source of refinancing. The table below shows the seven largest deposits (EUR thsd).

	31 Dec. 2021	31 Dec. 2020
1	35,002	25,000
2	25,000	25,000
3	20,000	20,000
4	15,000	20,000
5	10,000	15,000
6	5,000	13,700
7	2,000	10,000

The HYPO NOE Group's primary instruments for managing and covering short-term maturities are its available liquidity reserve, cash reserves and overnight investments. The Group draws a distinction between high-quality, highly liquid assets (HQLA) and other ECB or GC Pooling repoable collateral. Strategic liquidity is mainly generated by means of OeNB tenders and GC Pooling repos. As a result of participation in the European Central Bank's TLTRO III programme, a large part of the liquidity reserve has been converted into demand deposits at the OeNB. The breakdown of the available liquidity reserve as at 31 December 2021 and 31 December 2020 was as follows:

Available liquidity reserve, 31 Dec. 2021, EUR m	**T0**	**1M**	**3M**	**12M**
HQLA	347	335	323	304
Other collateral eligible for ECB tenders or GC Pooling repos	1,154	1,110	1,121	1,234
Cash at central bank	1,355	-	-	-

Available liquidity reserve, 31 Dec. 2020, EUR m	**T0**	**1M**	**3M**	**12M**
HQLA	336	293	240	183
Other collateral eligible for ECB tenders or GC Pooling repos	1,275	1,219	1,209	1,368
Cash at central bank	1,404	-	-	-

The analysis of the available liquidity reserve does not include collateral already utilised as at the end of the reporting period. This means that once the liabilities secured with such collateral have matured, there could be an increase in the portfolios included in the maturity profile.

By definition, the focus of investments made from the liquidity reserve is restricted to HQLA, OeNB tenders and GC Pooling repoable collateral. In this respect, new investments are primarily made in Level 1 HQLA from the euro area.

If the refinancing options are not sufficient to cover financial liabilities, the Bank's existing emergency processes and measures are triggered. The Bank's internal liquidity risk management processes require the latter's activation well before the actual occurrence of a situation that could pose a threat to its survival.

Details of the individual components of the Group's comprehensive liquidity risk management framework and their interaction are described below. The framework takes account of all of the mainstays of liquidity risk management. These include: preparing and implementing a refinancing and risk strategy adapted to the business model and risk appetite; employing and regularly reviewing suitable methods and processes to determine, measure, oversee and control liquidity risk; and ensuring that effective escalation processes and contingency plans are in place.

8.5.1 Strategic liquidity risk management targets

The liquidity risk management function identifies, analyses and manages the HYPO NOE Group's liquidity risk position, so as to maintain sufficient liquidity coverage as well as an effective cost structure at all times.

This gives rise to the following fundamental objectives of the Group's liquidity risk management:

- Maintenance of a sufficient liquidity buffer, based on suitable stress tests and limit systems, to maintain solvency at all times
- Optimisation of the refinancing structure with respect to risk tolerance, maturity transformation and costs
- Comprehensive planning of the medium-to-long-term refinancing strategy
- Coordination of issuance activity on the money and capital markets
- Risk and cost-reflective pricing
- Compliance with statutory regulations and legal frameworks

These underlying objectives form the basis for the following liquidity risk management principles, which are applied in liquidity management operations:

- The identification and regular assessment of liquidity risks
- The selection of, and regular review of the suitability of models and processes for measuring identified liquidity risks
- Quantification of liquidity risk on the basis of the established processes
- Identifying and implementing legislative and regulatory frameworks
- Determination of Management's risk appetite/tolerance
- Maintenance of an appropriate liquidity buffer at all times
- Reasonable limitation and monitoring of liquidity risk on the basis of the specified risk tolerance
- Goal-driven reporting
- Existence of emergency plans and processes, and their regular review to ensure that they are up to date and

appropriate
- Efficient and timely management of operational liquidity
- Approval and monitoring of the implementation of the medium-to-long-term refinancing strategy
- Employment of processes and procedures designed to ensure the risk-reflective allocation of liquidity costs

8.5.2 Implementation of liquidity risk management

Day-to-day liquidity requirements are monitored and managed on the basis of daily reports prepared by the Strategic Risk Management Department.

The department compiles extensive monthly liquidity risk reports to assist in the analysis and control of operational and structural liquidity, and monitoring of compliance with the liquidity risk limits. These reports describe and analyse operational liquidity risk over a period of 12 months according to a normal scenario (volatility scenario), as well as three stress scenarios (name crisis, market crisis and combined crisis), and the structural liquidity risk inherent in the normal scenario. In addition, the Management Board receives comprehensive monthly progress reports on the liquidity position, incorporating planning assumptions and key liquidity risk indicators, as well as information on the current liquidity situation. The Board also receives regular reports on the liquidity position and limit utilisation from the ALM Committee and RICO.

In preparing the liquidity cash flow forecast and the various liquidity scenarios, all on- and off-balance-sheet items (including contingent liabilities) affecting liquidity are taken into account. With regard to business that affects liquidity, the presentation of the liquidity cash flows distinguishes between a deterministic and a stochastic approach. For the positions given stochastic treatment, fictional maturity scenarios drawn from statistical models, benchmarks and/or expert valuations for given scenarios are extrapolated in order to arrive at the expected capital commitment.

In addition to existing business, assumptions about expected new business and prolongations are made for each scenario. Prolongations represent the extension of due positions arising from existing business relationships, while new business consists of new business from new or existing customers.

The HYPO NOE Group’s operational liquidity capacity is evaluated and monitored on a monthly basis, in terms of the length of time that the Bank would be able to survive (“time to wall”). The net cash outflows in the normal scenario and the three stress scenarios are compared with the relevant available liquidity reserve, and the point in time when the liquidity reserve will no longer be sufficient to cover the net cash outflows is calculated. The shortest “time to wall” is used to calculate limit utilisation. When determining the survival period in the stress scenarios, the fundamental assumption is made that no significant changes in the business model or risk strategy have as yet been initiated in order to reduce illiquidity. The limit leaves room for standard escalation processes to be triggered as required to react quickly to potential liquidity shortages and initiate appropriate action in good time. The stress test horizon is one year. The basic assumptions behind the various stress scenarios are described briefly below:

- For the **bank name crisis** stress scenario, a deterioration in the HYPO NOE Group’s individual liquidity situation is simulated. Other market participants are not initially affected by the crisis, but react indirectly, for example by withdrawing their deposits from the Bank. At the same time, the Group’s refinancing options in the money and capital markets are severely constrained or non-existent.
- In the **market crisis** scenario, an overall deterioration in the liquidity of the money and capital markets is assumed, and access to money and capital market refinancing is taken to be generally restricted. In addition, the available liquidity reserve can be expected to fall in value as a result of declining market prices, as market participants’ risk aversion increases. The effects on customer deposits are assumed to be smaller than in a name crisis and, as the Group is owned by the State of Lower Austria, may be seen as entirely positive, given that customers have an increased need for security in a crisis.
- The **combined crisis** scenario links a bank name crisis with a market crisis. It should be noted that in such a crisis the stress factors of the two components are not simply added: special parameters come into play. Refinancing in the money or capital markets is hardly possible at all in such a crisis. The liquidity buffer shrinks as market prices fall, and customer deposits increasingly drain away – albeit less than in a name crisis, since other market participants are also affected.
- A normal scenario is also simulated. This depicts routine business developments, as well as customary fluctuations in deposits, and withdrawals attributable to contingent liabilities. It is therefore referred to as the volatility scenario.

With a limit of eight weeks (or 12 weeks in the case of an early warning), the HYPO NOE Group’s time to wall as at 31 December 2021 was a very robust 52 weeks (31 Dec. 2020: 52 weeks). Alongside time to wall, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is reported on a monthly basis and is integral to the Group's operational liquidity management and the planning processes. The LCR reported to the regulator was 202% as at 31 December 2021 (31 Dec. 2020: 200%). In 2021 the regulatory limit was 100%, and the internal limit 120%. There are also maturity-related volume limits designed to control unsecured bank money-market exposures. The 30-day limit of EUR 250m, 90-day limit of EUR 400m and up-to-one-year limit of EUR 500m were adhered to throughout the monitoring period in 2021.

For structural liquidity risk, the period and cumulative liquidity gaps are presented in one-year maturity bands; here, the focus is mainly on contractual cash flows generated by existing business. Modelled cash flows only play a minor role, and new business and prolongations also play a part.

The HYPO NOE Group uses economic capital as a major metric for structural liquidity risk. Economic capital measures the maximum possible net interest loss that can be absorbed in the course of one year. To calculate the economic capital implied by liquidity risk, higher costs are applied, due to the potentially higher refinancing spreads over one year. On the basis of the historical funding costs of each major funding instrument, the maximum expected increase in refinancing costs over the period of one year is calculated and monitored with a given confidence level. The economic capital for a limit of EUR 15m was EUR 6.7m as at 31 December 2021 (31 Dec. 2020: EUR 6.9m for a limit of EUR 15m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn, and the structural funding ratio (SFR), a recovery indicator, is also applied. The SFR is an indicator of maturity transformation risk. It is calculated as the ratio of the current one-year liquidity gap, including the available liquidity reserve, to a predefined portion of the deposits. As at 31 December 2021 the SFR was significantly higher than the internal early warning threshold of 125%, at 520% (31 Dec. 2020: 506%).

The net stable funding ratio (NSFR) was reported for the first time as at 30 June 2021, in accordance with CRR II. The ratio stood at 120.40% at the end of the reporting period, which was significantly higher than the regulatory minimum ratio of 100%.

Besides these limits, early warning indicators are in place to identify impending critical liquidity situations as early as possible, so that the Bank can initiate timely countermeasures.

8.5.3 Liquidity contingency plan

The liquidity contingency plan is designed to maintain effective liquidity management even in a market crisis. The Group's plan defines the responsibilities in an emergency, the composition of the crisis management teams, the internal and external communication channels, and the action to be taken where necessary. In an emergency, a crisis management team takes control of liquidity management and decides on the measures to be taken on a case-by-case basis. The contingency plan comprises a package of measures useful in overcoming a liquidity crisis; these were identified, analysed in detail and documented in a multi-stage selection process. The feasibility and suitability of each of the emergency measures in a variety of basic types of stress scenario were evaluated, the quantitative and qualitative effects computed, and the individual steps in the implementation process determined.

8.5.4 Current liquidity risk situation

The HYPO NOE Group is in a strong position as regards its refinancing options. It draws its liquidity from conventional capital market transactions and deposits, as well as standard repo transactions and ECB tenders. Transactions with development banks also represent a source of refinancing.

In the second year of the Covid-19 pandemic, there was a sharp increase in current and savings account deposits from retail and institutional customers. Due to this increase, time deposits were sometimes scaled back in favour of a cost-effective refinancing mix.

As in previous years, the HYPO NOE Group maintained its reputation as a sound partner on the international capital markets during the reporting period. In spite of the pandemic, the Group completed all of its planned issues in 2021:

- EUR 500m senior unsecured benchmark issue in March
- EUR 500m publicly secured covered bond in June
- EUR 500m mortgage-backed covered bond in September

All of these capital market transactions were significantly oversubscribed.

In 2021, the HYPO NOE Group again utilised the European Central Bank's TLTRO III programme, which was launched in response to the Covid-19 pandemic.

During the reporting period, the regulatory indicators of liquidity risk were tracked in accordance with the published standards and reported to the Austrian regulator. Where applicable, the minimum regulatory requirements were adhered to without difficulty despite the coronavirus crisis. In future, compliance with the statutory regulations will be assured by their integration with the internal liquidity risk management arrangements and planning processes, as well as strict internal standards and operational control processes already in place. The HYPO NOE Group refines its liquidity risk management system on an ongoing basis, principally by incorporating the results of model and parameter validations, stress tests and emergency simulations.

During the year just ended, procedural and technical refinements were made to the liquidity risk reporting system, and the report preparation process was improved.

8.6 Operational risk

Operational risk is the danger of losses arising directly or indirectly from the inadequacy or failure of internal processes or systems, human error or external events. In each category of operational risk, legal risks can result in losses. This is because in every category the HYPO NOE Group can be exposed to claims or legal proceedings arising from alleged breaches of contractual, statutory or regulatory requirements. Information and communication technology (ICT) risk and reputational risk are closely related to operational risk. However, business risks do not form part of the latter.

The management of operational risks in the HYPO NOE Group is subject to a consistent Group-wide system of controls. The following methods are used to identify, evaluate and mitigate operational risks:

- Continuous recording of operational risk events, including the development of countermeasures designed to recognise such events at an early stage or avert similar events in future, as well as regular reporting to the Management Board
- Ongoing monitoring of the implementation of such measures up to completion, and submission of quarterly status reports to the Management Board
- Forward-looking monitoring of the operational risk profile using key risk indicators
- Evaluation of factors that could alter the risk profile, such as the introduction of new products or outsourcing activities
- Ongoing adaptation of and improvements to internal guidelines
- Management of business interruption risks by means of emergency plans embedded in the business continuity management (BCM) system
- Strict adherence to the four-eye management principle so as to reduce the likelihood of the occurrence of risk events
- In-service training as part of staff development
- Insurance against various risks

There is also an emphasis on continuously improving the effectiveness and efficiency of operational risk management processes. The operation and continuous improvement of an effective internal control system (ICS) is aimed at reducing the likelihood of operational risk events and minimising their impact. Risks are systematically identified and assessed, controls agreed and developed, and where necessary key processes adapted.

Current operational risk situation

Information on operational risk events in the year under review was systematically collected in the central database. Improvements are seen as crucial to controlling operational risk: they were painstakingly formulated and implemented whenever operational risk events and near-miss incidents occurred.

A stand-alone crisis team has been managing the measures taken in response to the Covid-19 pandemic since March 2020, and has introduced the following arrangements, among others: floor separation at two bank sites; ongoing information for employees; widespread working from home; installation of Plexiglas partitions at branches; and division of employees into teams with alternating attendance requirements at the strategically significant units. Appropriate reporting to the Management Board was implemented in the early stages of the pandemic. Thanks to the measures taken, there were no confirmed infections on Bank premises and operations continued without interruption. Operating losses due to the Covid-19 pandemic, which have so far been insignificant, are being recorded in accordance with the European Banking Authority (EBA) guidelines. On the whole, HYPO NOE Landesbank is in a position to keep day-to-day operations up and running regardless of pandemic-related developments.

The early warning and key risk indicators have performed satisfactorily.

The ICS was updated in the course of the annual review. Consideration of the implications of heavy reliance on home office working due to Covid-19 was included.

The risk content of new products was routinely surveyed using a standard evaluation tool which is built into the product launch process.

Due to the Group's digitalisation efforts, ICT risk has become a major issue. It is addressed by means of close cooperation between the Organisation & IT and Strategic Risk Management departments. Work is proceeding on the identification, assessment, mitigation and documentation of ICT risks using a specialised tool. The emphasis is on the following three sources of risk: the ARZ computer centre, in its capacity as the developer and operator of the core banking system; HYPO NOE Landesbank, and its employees and processes, as well as the IT systems and applications developed by it; and third parties to which ICT services are outsourced. The OeNB carried out an audit of ICT security at the HYPO NOE Group and the Allgemeines Rechenzentrum. Both the Group and ARZ analysed and addressed the audit findings.

8.7 Reputational risk

The HYPO NOE Group attaches great importance to limiting and managing reputational risk, and it is therefore treated as a separate risk category. Great care is taken to avoid potential harm to the reputation of the HYPO NOE Group when taking business decisions, and a process for evaluating reputational risk is in place.

Reputational risk is the danger of direct or indirect damage to the Group's good name, and the opportunity costs that this would entail. Such damage can compromise the Group's standing and undermine the trust of its stakeholders, including customers, investors, employees, business partners and the community. It may stem from a failure to live up to these stakeholders' expectations.

In the Group's view, the means of meeting those expectations lies in effective business processes, coupled with sound risk monitoring and management. The Group's code of conduct outlines the common values and principles shared by its employees. The HYPO NOE Group also avoids business policies and transactions associated with particularly acute legal or tax risks, or with substantial environmental risks. The Group's lending is subject to clear ethical guidelines and business principles, geared towards strict conformity with a holistic environmental and social sustainability approach. In this way, the Bank ensures that loans are only extended for purposes that are compatible with its philosophy and sustainability strategy. The ethics guidelines and business principles comprise exclusion criteria, while the principle of prudence is strictly applied to financing for environmentally and socially sensitive sectors. These guidelines and principles form the basis for initiating new business across the Group. These criteria are also explicitly referred to by a "reputational risk questionnaire" that forms part of loan applications.

The independent ombudsman deals quickly and efficiently with customers' concerns (such as complaints and misunderstandings), and seeks to find satisfactory solutions in consultation with them. Besides meeting the statutory requirements, the goal is to improve customer relationships and mitigate reputational risk.

8.8 Other risks

The following types of risk are classified as "other risks":

- Business risk (the danger of loss resulting from a deterioration in the economic environment or in the HYPO NOE Group's business relationships)
- Strategic risk (the danger of losses arising from decisions on the Group's basic focus and business development)
- Macroeconomic risk (potential losses resulting from exposure to macroeconomic risk factors)
- Concentration risk – encompassing various types of risk (potential adverse consequences of the concentration of, or interplay between similar or differing risk factors or types of risk)
- Leverage risk (any threat to the Bank's stability arising from its actual or potential indebtedness)
- Real estate price risk (potential losses due to downturns in property prices and the resultant adverse effect on the fair value of a property)

- Model risk (potential losses arising from the consequences of decisions that stem from internal approaches, and which are attributable to errors in the development, implementation and application of such approaches)
- Outsourcing/insourcing risk (risks connected with the outsourcing or insourcing of banking operations)
- Data protection risk (risks arising from data processing that could lead to physical, tangible or intangible damage)
- Securities risk arising in connection with the Austrian *Wertpapieraufsichtsgesetz* (Securities Supervision Act), i.e. risks arising from the provision of securities-related services

The Group identifies and monitors such potential risks, and uses equity to hedge them, responding to negative changes at an early stage.

8.9 Sustainability risks

In line with the recommendations of the FMA Guide for Handling Sustainability Risks, when drawing up its risk inventory the HYPO NOE Group has incorporated sustainability risks in the existing main risk categories of its risk map as sub-categories (effect on existing types of risk). The risk manuals and strategies have been revised accordingly.

As suggested by the FMA guide, new methods and tools adopted featured a “heat map” to classify the climate risk involved in the loans extended, as well as clear exclusion and inclusion criteria for lending policies. In addition, negative impacts of extreme weather events are analysed as part of the annual Bank-wide stress test. There are also ongoing interbank information exchanges between members of ARZ, aimed at creating synergies by boosting efficiency and minimising costs through joint implementation of software in the core banking system.

Potential sustainability risks within the individual risk categories are reviewed in detail. The results of this evaluation will subsequently be reflected in the Group’s strategic risk objectives, and its operational business and risk management processes.

For the first time, the HYPO NOE Group assessed its entire loan and securities portfolio to determine which assets meet the definition of financing under the supercategories of the technical evaluation criteria in accordance with the EU delegated regulation supplementing the Taxonomy Regulation ([EU] 2020/852), which determines the conditions under which an economic activity can be seen as making a significant contribution to climate protection and adaptation to climate change, without significantly harming any other environmental targets (see also section 9.7 Management of sustainability risks in the Group operational and financial review).

8.10 Risk buffer

To deal with unquantified risks which the risk inventory has determined should be given equity cover when the risk-bearing capacity is computed, the Group maintains a risk buffer which is calculated on the basis of the quantified risks. The risk buffer is treated as an exposure class forming part of the Bank’s aggregate risk in the total risk-bearing capacity calculation, and is broken down into model risk, reputational risk and other non-quantified risks. The more sophisticated and accurate risk measurement processes are, and the smaller the share of the non-quantified risks they include, the smaller the capital buffer can be.

8.11 Latent legal risks

It is standard practice to recognise provisions for litigation in which the outcome or any potential losses can be reliably predicted. In such cases, provisions are recognised at a level deemed appropriate in the circumstances, and in accordance with the applicable accounting principles.

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

EUR ’000	31 Dec. 2021	31 Dec. 2020
Unutilised facilities	1,652,535	1,751,709

9 NOTES TO THE STATEMENT OF CASH FLOWS

Significant accounting policies

At the HYPO NOE Group, the cash flows reported in the consolidated statement of cash flows, in accordance with IAS 7, are presented using the indirect method. “Cash flows from investing activities” and “Cash flows from financing activities” are calculated using the direct method.

“Cash flows from **operating activities”** mainly relate to cash inflows and outflows from “Financial assets – AC”, “Financial assets – mandatorily FVTPL”, “Financial assets – FVOCI” and “Financial liabilities – AC”.

When reconciling cash flows with the profit for the year before non-controlling interests, non-cash items are removed. These comprise depreciation and amortisation, impairment and write-ups of property, plant and equipment, intangible assets and investment property, and allocations to and reversals of provisions and risk provisions, as well as net measurement gains or losses on financial assets and liabilities.

The HYPO NOE Group’s interest income and interest expense are eliminated from “Profit for the year” by means of the “Adjustments for interest income and expense” item; the amounts for interest income and interest expense are replaced by the actual interest paid and received, which are recognised under “Cash flows from operating activities”.

“Cash flows from **investing activities**” largely concern cash inflows and outflows from additions to and disposals of property, plant and equipment, and investment property.

“Cash flows from **financing activities**” are made up of dividends paid to owners of the parent and repayments of lease liabilities, in accordance with paragraph 50a IFRS 16.

“**Cash and cash equivalents**” consists of cash on hand, demand deposits and balances at central banks repayable on demand. This item corresponds to “Cash and balances at central banks” in the statement of financial position.

The following table shows changes in liabilities arising from financing activities.

EUR ’000	1 Jan. 2021	Cash	Non-cash	31 Dec. 2021
Subordinated liabilities	-	-	-	-
Liabilities arising from financing activities	**-**	**-**	**-**	**-**

EUR ’000	1 Jan. 2020	Cash	Non-cash	31 Dec. 2020
Subordinated liabilities	1,453	-	-1,453	-
Liabilities arising from financing activities	**1,453**	**-**	**-1,453**	**-**

10 GROUP STRUCTURE AND RELATED-PARTY RELATIONSHIPS

10.1 Scope of consolidation

The scope of consolidation of the HYPO NOE Group includes all subsidiaries that are directly or indirectly controlled by the parent and are material to the presentation of the Group's assets, finances and earnings. The scope of consolidation is reviewed on an ongoing basis. Besides the parent, HYPO NOE Landesbank für Niederösterreich und Wien AG, the Group comprises 55 (31 Dec. 2020: 60) Austrian subsidiaries in which the parent meets the criteria for control as specified by IFRS 10. A total of 12 companies are accounted for using the equity method (31 Dec. 2020: 11).

Significant accounting policies

Where voting rights are seen as conclusive in judging whether control exists, the HYPO NOE Group is normally assumed to control an investee if it directly or indirectly holds or controls more than half of the voting rights. Besides voting rights, other rights and de facto circumstances are taken into account. Where the Group does not control a majority of the voting rights but has the practical ability to direct relevant activities, the Group is also assumed to control the entity concerned.

All material intra-Group transactions are eliminated on consolidation. The HYPO NOE Group does not apply proportionate consolidation, as it does not hold interests in joint operations.

Joint ventures (IFRS 11) and associates (IAS 28) are accounted for using the equity method. The first step towards determining whether there is joint control is to ascertain who exercises 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 at least 20% of the voting rights. Besides the extent of the voting rights, the Group also takes account of other factors which indicate that significant influence is exercised. These include representation of the Bank on the management or supervisory bodies of the investee, or participation in key decisions. In such cases, the question as to whether there is significant influence is also considered even if the Group holds less than 20% of the voting rights.

Company name	Included in consolidation as at 31 Dec. 2021	Included in consolidation as at 31 Dec. 2020	Date of change	Reason
PPP Campus RAP + LGG GmbH	Equity method	N/A	21 Apr. 2021	Formation
PPP Campus RAP + LGG GmbH & Co KG	Equity method	N/A	21 Apr. 2021	Formation
HYPO NOE First Facility GmbH	n/a	Consolidated	31 May 2021	Disposal*
AELIUM Grundstückvermietungs Gesellschaft m.b.H. (under liquidation)	n/a	Consolidated	7 Aug. 2021	Liquidation
NEMUS Grundstückvermietungs Gesellschaft m.b.H. (under liquidation)	n/a	Consolidated	28 Sep. 2021	Liquidation
Viminal Grundstückverwaltungs Gesellschaft m.b.H. (under liquidation)**	n/a	Equity method	1 Dec. 2021	Liquidation
PROVENTUS Grundstückvermietungs Gesellschaft m.b.H.	n/a	Consolidated	2 Dec. 2021	Liquidation
NÖ. HYPO LEASING NITOR Grundstücksvermietungs Gesellschaft m.b.H. (under liquidation)	n/a	Consolidated	16 Dec. 2021	Liquidation

*All shares in HYPO NOE First Facility GmbH, previously a consolidated subsidiary, were sold by HYPO Officium GmbH to PKE Holding AG.

**Liquidated in 2021.

10.2 Consolidated subsidiaries

The following consolidated, directly or indirectly held Group companies were included in the IFRS consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG as at 31 December 2021:

Company name	Domicile	Interest	of which
HYPO NOE Landesbank für Niederösterreich und Wien AG	St. Pölten		
Adoria Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
ALARIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
ARTES Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%
Aventin Grundstückverwaltungs Gesellschaft m.b.H. (under liquidation)	St. Pölten	51.00%	51.00%
Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
BSZ Eisenstadt Immobilien GmbH	St. Pölten	100.00%	100.00%
CALCULATOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
CALLIDUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
CLIVUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
COMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
CURIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%
FAVIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
FORIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
HBV Beteiligungs-GmbH	St. Pölten	100.00%	-
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	66.67%	66.67%
HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%
HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%
HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	St. Pölten	90.00%	90.00%
HYPO Niederösterreichische Liegenschaft GmbH	St. Pölten	100.00%	100.00%
HYPO Officium GmbH	St. Pölten	100.00%	-
HYPO NOE Leasing GmbH	St. Pölten	100.00%	-
HYPO NOE Versicherungsservice GmbH	St. Pölten	100.00%	-
HYPO Omega Holding GmbH	St. Pölten	100.00%	-
HYPO-REAL 93 Mobilien-Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%
Landeskrankenhaus Tulln-Immobilienvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	56.42%

LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	51.00%	26.00%
METIS Grundstückverwaltungs GmbH	St. Pölten	90.00%	90.00%
NEUROM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. HYPO LEASING AGILITAS Grundstücksvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING ASTEWOG Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING FIRMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. HYPO LEASING GERUSIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING Landeskliniken Equipment GmbH	St. Pölten	100.00%	100.00%
NÖ. HYPO LEASING MEATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING MENTIO Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. HYPO LEASING STRUCTOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%
NÖ. HYPO LEASING URBANITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. Verwaltungszentrum - Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
PINUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	90.10%	90.10%
Sana Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
SATORIA Grundstückvermietung GmbH	St. Pölten	100.00%	100.00%
Strategic Equity Beteiligungen GmbH	St. Pölten	100.00%	-
Telos Mobilien-Leasinggesellschaft m.b.H. (under liquidation)	St. Pölten	100.00%	100.00%
Treisma Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%
VESCUM Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%
VIA-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VIRTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VITALITAS Grundstückverwaltung GmbH	St. Pölten	100.00%	100.00%
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	65.00%	65.00%
ZELUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%

10.3 Investments accounted for using the equity method

Significant accounting policies

Investments in associates and arrangements where there is joint control are recognised at acquisition cost and are included in the consolidated statement of financial position at the date on which significant influence is obtained. The pro rata carrying amounts of changes in equity are adjusted in subsequent periods.

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

Exchange differences arising from investments accounted for using the equity method are reported as part of consolidated equity, in the currency translation reserve.

EUR '000	2021	2020
Net gains on investments accounted for using the equity method	3,207	4,237
NOE Immobilien Development GmbH (consolidated financial statements)	411	2,125
Niederösterreichische Vorsorgekasse AG	989	737
EWU Wohnbau Unternehmensbeteiligungs-GmbH (consolidated financial statements)	-415	492
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	813	760
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	1,084	154
Total	**3,207**	**4,237**

Investments accounted for using the equity method were as follows:

EUR '000	31 Dec. 2021	31 Dec. 2020
Banks	5,577	4,588
Non-banks	28,114	26,485
Total	**33,692**	**31,074**

31 Dec. 2021, EUR '000	Domicile	Interest	of which indirect	Carrying amount	Profit or loss from continuing operations	Segment / Corporate Center	Reporting date
Joint ventures				**6,786**	**1,349**		
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	74	-9	Public Sector	31 Dec. 2021
Viminal Grundstückverwaltungs Gesellschaft m.b.H. (under liquidation)	Vienna	-	-	-	-2	Public Sector	Liquidated
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	712	-5	Public Sector	31 Dec. 2021
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	5,577	989	Treasury & ALM	31 Dec. 2021
PPP Campus AM + SEEA GmbH	St. Pölten	50.00%	50.00%	15	-	Public Sector	31 Dec. 2021
PPP Campus AM + SEEA GmbH & Co KG	St. Pölten	50.00%	50.00%	393	393	Public Sector	31 Dec. 2021
PPP Campus RAP + LGG GmbH	St. Pölten	45.00%	45.00%	14	-2	Public Sector	31 Dec. 2021
PPP Campus RAP + LGG GmbH & Co KG	St. Pölten	45.00%	45.00%	-	-16	Public Sector	31 Dec. 2021
Associates				**26,905**	**1,858**		
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	48.00%	-	2,157	-415	Real Estate	31 Dec. 2021
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	2,865	813	Public Sector	31 Dec. 2021
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	638	-34	Public Sector	31 Dec. 2021
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	1,846	1,084	Public Sector	31 Dec. 2021
NOE Immobilien Development GmbH*	St. Pölten	48.00%	48.00%	19,399	411	Real Estate	30 Sep. 2021
Total				**33,692**	**3,207**		

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or other events that occurred between this reporting date and 31 December 2021.

31 Dec. 2020, EUR '000	Domicile	Interest	of which indirect	Carrying amount	Profit or loss from continuing operations	Segment / Corporate Center	Reporting date
Joint ventures				**5,408**	**707**		
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	83	-9	Public Sector	31 Dec. 2020
Viminal Grundstückverwaltungs Gesellschaft m.b.H.	Vienna	50.00%	50.00%	3	-2	Public Sector	31 Dec. 2020
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	717	-19	Public Sector	31 Dec. 2020
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	4,588	737	Treasury & ALM	31 Dec. 2020
PPP Campus AM + SEEA GmbH	St. Pölten	50.00%	50.00%	16	-1	Public Sector	31 Dec. 2020
PPP Campus AM + SEEA GmbH & Co KG	St. Pölten	50.00%	50.00%	-	-	Public Sector	31 Dec. 2020
Associates				**25,666**	**3,530**		
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	48.00%	-	2,572	492	Real Estate	31 Dec. 2020
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	2,672	760	Public Sector	31 Dec. 2020
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	672	-1	Public Sector	31 Dec. 2020
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	763	154	Public Sector	31 Dec. 2020
NOE Immobilien Development GmbH*	St. Pölten	48.00%	48.00%	18,988	2,125	Real Estate	30 Sep. 2020
Total				**31,074**	**4,237**		

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or other events that occurred between this reporting date and 31 December 2021.

Losses totalling EUR 28thsd (31 Dec. 2020: EUR 50thsd) were not recognised in profit or loss. These accumulated losses rose by EUR 22thsd in 2020, whereas they fell by EUR 224thsd in 2020.

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

	Niederösterreichische Vorsorgekasse AG		NOE Immobilien Development GmbH (consolidated financial statements)*	
Percentage holding	**49.00%**	**49.00%**	**48.00%**	**48.00%**
EUR ’000 as at reporting date	**31 Dec. 2021**	**31 Dec. 2020**	**30 Sep. 2021**	**30 Sep. 2020**
Non-current assets	9,221	7,336	76,849	63,996
Current assets	3,684	3,066	8,770	30,034
Cash and cash equivalents	*341*	*326*	*5,145*	*29,171*
Non-current liabilities	-156	-159	-34,287	-45,839
Non-current financial liabilities	-	-	*-34,221*	*-45,495*
Current liabilities	-1,367	-879	-10,917	-8,632
Current financial liabilities	-	-	*-2,081*	*-2,151*
Net assets (100%)	**11,382**	**9,364**	**40,414**	**39,559**
Group share of net assets	**5,577**	**4,588**	**19,399**	**18,989**
Difference allocated to assets	**5,577**	**4,588**	**19,399**	**18,989**
EUR ’000 – profit/loss as basis for inclusion in annual report	**2021**	**2020**	**Q1-Q3 2021**	**Q1-Q3 2020**
Interest income	253	34	676	401
Interest expense	-	-	-847	-605
Other income	4,391	3,978	24,507	29,662
Operating expense	-1,952	-2,007	-22,559	-24,357
Depreciation, amortisation and impairment	*-29*	*-13*	*-362*	*-288*
Profit before tax	**2,693**	**2,005**	**1,777**	**5,101**
Income tax expense	-675	-500	-921	-674
Profit for the year (100%)	**2,018**	**1,504**	**856**	**4,427**
Group share of profit/loss	**989**	**737**	**411**	**2,125**

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or other events that occurred between this reporting date and 31 December 2021.

Estimation uncertainties and judgements

The positions held by key management personnel on the management boards of associates and joint ventures, as well as other relevant details are set out in Note 10.4 Disclosures on related-party relationships.

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

For the purpose of impairment testing in accordance with IAS 36, the fair value of NÖVK in accordance with IFRS 13 was calculated using the dividend discount model (DDM). Under this model – which is a form of the discounted cash flow (DCF) method – future expected dividends are discounted using the cost of equity. The present value of the financial surpluses calculated in this way represents the fair value.

In order to calculate the present value of NÖVK’s future expected dividends, the company’s budgeted distributable amounts were discounted, using the cost of equity calculated according to the capital asset pricing model (CAPM) as the discount rate, taking into account the statutory regulations, in particular the own funds requirement and allocations to the capital guarantee reserve.

The time horizon applied to measurement 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 impact of Covid-19 on NÖVK is scarcely discernible at present. In 2021 both the capital markets and business volume rebounded strongly, leading to a higher profit for the fund than had been anticipated. In the absence of further external shocks (e.g. a capital market collapse or renewed Covid-19 waves with massive effects on employment), NÖVK expects a continued improvement in results.

Impairment testing did not indicate any need to recognise impairment losses on the fund's investments accounted for using the equity method as at 31 December 2021.

	Change in fair value	
EUR '000 **Sensitivity analysis**	**31 Dec. 2021**	**31 Dec. 2020**
50 bp increase in cost of equity	-412	-288
50 bp decrease in cost of equity	433	320
1 bp increase in net margin as percentage of accrued benefits after the detailed	258	219
1 bp decrease in net margin as percentage of accrued benefits after the detailed	-277	-397

NOE Immobilien Development GmbH (NID) specialises in property development, housing construction and neighbourhood development, with a focus on Lower Austria and Vienna. It mainly invests in intergenerational residential construction schemes forming part of municipal urban development projects. The HYPO NOE Group's significant influence over the company is exercised by means of voting rights and the appointment of members of the Group's key management to supervisory board positions.

The recoverable amount of the investment in NID was calculated for the purpose of impairment testing in accordance with IAS 36. As no material synergy effects are to be expected, a value in use higher than fair value less costs to sell is unlikely. Therefore, measurement of the recoverable amount is at fair value in accordance with IFRS 13, using the discounted cash flow (DCF) approach, in line with the gross method (WACC). Under the WACC approach, the fair value of total capital (enterprise value) is arrived at by discounting free cash flow using a composite discount rate (WACC) comprising the cost of equity and borrowing costs. The fair value of equity (equity value) is calculated by deducting the fair value of total capital from that of interest-bearing debt.

In order to calculate the present value of the cash flows, NID's free cash flow is determined on the basis of an integrated budget and discounted using the discount rate (WACC). When calculating the WACC for NID, the cost of equity was determined using the CAPM, while borrowing costs were arrived at by reconciling the (median) credit ratings of peer group members with the yield curve (for 30-year maturity) for European corporate bonds corresponding to this rating. The target capital structure realisable within the budgeted period is measured by the median leverage ratio of the peer groups at fair value, and remains constant over the entire time horizon.

The time horizon applied to measurement is greater than five years as one-time effects must be factored in at the rough budgeting stage before a long-term profit forecast can be made.

It is not possible to give a precise and reliable estimate of the uncertainties related to the Covid-19 pandemic. The budget that serves as the basis for determining fair value assumes delays in some real estate projects, as well as a reduced number of acquisitions due to lengthier existing and future planning permission procedures. Appropriate steps were taken to accommodate the impact of construction price fluctuations due to the Covid-19 pandemic on medium-term planning for existing projects and acquisitions.

Impairment testing did not indicate any need to recognise impairment losses on NID's investments accounted for using the equity method as at 31 December 2021.

EUR '000	Change in fair value	
	31 Dec. 2021	31 Dec. 2020
Sensitivity analysis (present value of expected cash flows from additional lending)		
0.01 increase in unlevered beta	-543	-633
0.01 decrease in unlevered beta	555	649
25 bp increase in market risk premium	-1,291	-1,255
25 bp decrease in market risk premium	1,363	1,317
25 bp increase in discount rate (WACC)	-1,949	-2,132
25 bp decrease in discount rate (WACC)	2,121	2,320

10.4 Disclosures on related-party relationships

Significant accounting policies

The State of Lower Austria holds an indirect interest of 70.49% in HYPO NOE Landesbank für Niederösterreich und Wien AG via NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% via NÖ BET GmbH. The State is therefore included under "Parent companies" in the table below. Further information regarding key management personnel is presented in Note 5.3.2 Staff costs.

The identified HYPO NOE Group staff on which itemised data is presented are:

- The Management and Supervisory boards and their next of kin
- Chief executives of material subsidiaries
- The senior and key management of HYPO NOE Landesbank
- The chief executives of NÖ Landes-Beteiligungsholding GmbH and NÖ BET GmbH

In 2021 the Group's senior and key management were downsized to bring them into line with its streamlined organisational structure, meaning that the data for the reporting period are not comparable with those of the preceding year.

Estimation uncertainties and judgements

The transfer prices between the HYPO NOE Group and related parties are arm's length prices. The State of Lower Austria's guarantees of loans and advances extended to third parties by HYPO NOE Landesbank (see table below) are also all concluded on market terms.

31 Dec. 2021

EUR '000	Parent companies	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties	Identified staff*
Open balances						
Selected financial assets	**2,343,585**	**120,568**	**461,583**	**11,840**	**6,308**	**2,422**
Equity instruments	-	89	26,905	6,787	325	-
Bonds	32,658	-	-	-	-	-
Loans	2,310,927	120,479	434,678	5,054	5,983	2,422
Selected financial liabilities	**185,068**	**96**	**67,792**	**993**	**19,086**	**2,585**
Deposits	185,068	96	67,792	993	19,086	2,585
Nominal value of loan commitments, financial guarantee contracts and other commitments	**795,784**	**34,011**	**10,892**	**2,404**	**5,828**	**265**
Loan commitments, financial guarantees and other commitments received	**177,665**	**-**	**-**	**-**	**-**	**-**
Nominal value of derivatives	**941,294**	**85,000**	**-**	**-**	**-**	**-**
Current period						
Interest income	42,028	2,054	7,816	94	66	3
Interest expense	-14,313	-	-25	-1	-2	-2
Dividend income	-	-	619	-	80	-
Fee and commission income	2,583	1	241	20	19	12
Fee and commission expense	-	-	-	-	-1	-6

31 Dec. 2020

EUR '000	Parent companies	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties	Identified staff*
Open balances						
Selected financial assets	**2,574,524**	**119,234**	**416,384**	**5,604**	**163**	**2,728**
Equity instruments	-	71	25,666	5,408	-	-
Bonds	-	-	-	-	-	-
Loans	2,574,524	119,163	390,718	197	163	2,728
Selected financial liabilities	**32,019**	**3**	**114,549**	**3,959**	**1,249**	**2,782**
Deposits	32,019	3	114,549	3,959	1,249	2,782
Nominal value of loan commitments, financial guarantee contracts and other commitments	**880,763**	**35,667**	**12,033**	**7,593**	**-**	**-**
Loan commitments, financial guarantees and other commitments received	**-**	**-**	**-**	**-**	**-**	**-**
Nominal value of derivatives	**928,955**	**85,000**	**-**	**-**	**-**	**-**
Current period						
Interest income	46,150	2,055	8,335	1	-	3
Interest expense	-12,930	-	-33	-1	-2	-3
Dividend income	-	-	670	-	-	-
Fee and commission income	133	2	181	21	-	1
Fee and commission expense	-28	-	-1	-	-	-

*Includes loans, advances and guarantees in accordance with section 237(1)(3) Austrian Business Code as at 31 December 2021 of EUR 285thsd extended to the Management Board (31 Dec. 2020: EUR 284thsd) and of EUR 711thsd extended to the Supervisory Board (31 Dec. 2020: EUR 709thsd), all concluded on market terms.

Transactions with parent companies are reported under the Public Sector segment. A description of these dealings can be found in Note 2.1 Public Sector segment. In the course of 2021 there was a significant transaction with the State of Lower Austria, concluded on normal market terms, in connection with subsidised homebuilding loans. Details are given in Note 4.3 Financial assets.

Relationships with subsidiaries

Wolfgang Viehauser, a member of the Management Board, is chairperson of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten. A member of the Supervisory Board also sits on the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten. Wolfgang Viehauser, a member of the Management Board, is a member of the supervisory board of VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H.

Relationships with entities accounted for using the equity method

Niederösterreichische Vorsorgekasse AG
A member of the HYPO NOE Group's key management belongs to the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

EWU Wohnbau Unternehmensbeteiligungs-GmbH and its subsidiaries
A member of the HYPO NOE Group's key management is also on the supervisory board of EWU Wohnbau Unternehmensbeteiligungs-GmbH, St. Pölten.

Management Board member Wolfgang Viehauser is chairperson of the supervisory boards of EWU Wohnbau Unternehmensbeteiligungs-GmbH, St. Pölten, Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H (all domiciled in Mödling).

A member of the HYPO NOE Group's key management is a member of the supervisory boards of Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H, all domiciled in Mödling.

NOE Immobilien Development GmbH and its subsidiaries
A member of the HYPO NOE Group's key management is the deputy chairperson of the supervisory board of NOE Immobilien Development GmbH, St. Pölten.

A member of the HYPO NOE Group's key management is a member of the supervisory board of NOE Immobilien Development GmbH, St. Pölten.

Relationships with parent companies
The deputy chairperson of the Supervisory Board chairs, and another member of the Supervisory Board is deputy chairperson of the supervisory board of NÖ Landes-Beteiligungsholding GmbH, St. Pölten.

11 EVENTS AFTER THE REPORTING PERIOD

Published on 20 January 2022, Supreme Court verdict 3Ob189/21x of 22 December 2021 regarding the charging of interest during the statutory Covid-19-related forbearance period (statutory moratorium) is an adjusting event. Details are given in Note 4.2.1 Net interest income.

The government's Ecosocial Tax Reform Bill 2022 Part I, tabled on 15 December 2021, passed its third reading in the lower house of the Austrian Parliament on 20 January 2022. This legislation constitutes an adjusting event – Article 2, Amendment of the Corporation Tax Act 1988, provides for reductions in the rate of corporation tax to 24% in 2023 and 23% in 2024. The HYPO NOE Group does not expect this to significantly reduce its tax burden.

12 GOVERNING BODIES OF HYPO NOE LANDESBANK

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

Management Board

Wolfgang Viehauser, Management Board Member Markets and Speaker of the Board
Udo Birkner, Management Board Member Finance, Risk & Operations

Supervisory Board

Günther Ofner, Chairperson
Michael Lentsch, Deputy Chairperson
Birgit Kuras
Johann Penz
Ulrike Prommer
Karl Schlögl
Hubert Schultes
Sabina Fitz-Becha

Delegated by the Works Council

Franz Gyöngyösi
Claudia Mikes
Rainer Gutleder
Peter Böhm

Federal commissioners

Hans-Georg Kramer, Federal Ministry of Finance
Josef Dorfinger, Federal Ministry of Finance

Supervisory commissioners

Georg Bartmann, office of the State of Lower Austria
Helmut Frank, office of the State of Lower Austria

St. Pölten, 23 February 2022
The Management Board

Wolfgang Viehauser
Management Board Member Markets and
Speaker of the Board

Udo Birkner
Management Board Member Finance,
Risk & Operations

ADDITIONAL INFORMATION

for the year ended 31 DECEMBER 2021

in accordance with IFRS
HYPO NOE Landesbank für Niederösterreich und Wien AG

1 DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the 2021 consolidated financial statements of the HYPO NOE Group give a true and fair view of the Group's assets, finances and earnings, in conformity with the relevant accounting standards; and that the Group operational and financial review presents the course of the Group's business and its results and financial condition in such a manner as to give a true and fair view of the Group's assets, finances and earnings, and describes the principal risks and uncertainties to which the Group is exposed.

St. Pölten, 23 February 2022
The Management Board

Wolfgang Viehauser
Management Board Member Markets and Speaker of the Board

responsible for

M&A, Business Development,
Sales Strategy & Digitalisation,
Marketing & Communication,
Public Sector, Retail Customers, Corporate Customers, Real Estate Customers,
Treasury & ALM, and press relations

Udo Birkner
Management Board Member Finance, Risk & Operations

responsible for

Group General Secretariat & Law,
Compliance, AML & Regulatory, Human Resources, Finance, Risk,
Operations/Organisation & IT, and
Internal Audit

2 AUDITORS' REPORT

Report on the Audit of the Consolidated Financial Statements[4]

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 31 December 2021, 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 of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows 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. These standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are 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 the 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 up to the date of our report is sufficient and appropriate to provide a basis for our opinion as of that date.

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 for the reporting period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion on them, and we do not provide a separate opinion on these matters.

Determination of credit risk provisions on loans and advances to customers

Description and issue

As at 31 December 2021 financial assets - AC after deduction of credit risk provisions amount to EUR 14.053m, of which loans and advances to customers EUR 12.192m.

For the determination of expected credit losses the Bank has implemented processes for identification of loss events and of significant increases of credit risk.

The risk provisions are determined as follows:

- Expected credit losses for defaulted loans receivables classified as significant at customer level are determined individually. Expected cash flows from capital, interest and realization of collaterals are estimated on a scenario-weighted basis using all available information.
- For defaulted loan receivables from non-significant customers a parameter based method is used for determination of risk provisions.

[4] *This is a translation of the audit opinion, only the German original is valid.*

- For non-defaulted loan receivables model based expected credit losses are calculated using estimated probabilities of default and loss given default rates. If no significant increase in credit risk has incurred since initial recognition, these risk provisions are recognized in the amount of the expected credit losses over the next twelve months (stage 1). If a significant increase in credit risk has incurred since initial recognition, the expected credit losses are estimated for the remaining term of the receivables (stage 2). Regarding the non-defaulted credit exposures the Bank has analyzed the model adjustments made in the previous year following the outbreak of the COVID 19 pandemic and has made the following model refinements during 2021:
  - On the basis of a case-by-case analysis, certain borrowers with project financing in office properties, hotels and shopping centres being affected in an economically sustainable way by the expected behavioural changes of the COVID 19 pandemic were transferred from Stage 1 to Stage 2.
  - Since the published forecasts on the development of macroeconomic parameters for estimating probabilities of default do not yet reflect the effects of the Omikron variant, the weighting of pessimistic scenarios in the model was increased.

We refer to the disclosures in the Notes in the chapter "Explanatory notes on the allowance for losses on loans and advances".

The determination of credit risk provisions on loans and advances is associated with considerable uncertainties and discretion in all of the aforementioned areas. These arise from the identification of a loss event or of a significant increase in credit risk as well as from the estimation of expected cash flows or from the determination and updating of calculation parameters reflecting those. We therefore identified the determination of credit risk provisions as a particularly important audit matter.

Our response

We assessed the key processes and controls in credit risk management and workout management and reviewed their design, implementation and effectiveness.

We tested the appropriateness of determination of the amount of the risk provisions for losses on loans and advances for a sample of defaulted loans and advances.

For a sample of non-defaulted loans, for which certain early warning indicators have occurred (watch loans), we critically evaluated the appropriateness of discretionary decision making in connection with the transfer of these loans to the workout management department.

We have assessed the case-by-case analysis of the borrowers in the office property, hotel and shopping centre sectors and checked whether the borrowers affected in an economically sustainable way have been transferred to Stage 2.

We assessed the approach to adjust the macroeconomic parameters for estimating the probabilities of default and critically analyzed the impact on the probabilities of default. We have checked whether the adjusted probabilities of default have found their way into the calculation of risk provisions.

Other information

Management is responsible for other information. Other information comprises all information included in the annual report, except for the consolidated financial statements, the group management report, the annual financial statements, the management report and the related audit opinions. We have received the annual report (with the exception of the foreword and the report of the supervisory board) up to the date of the auditor's report, the foreword and the report of the supervisory board are expected to be made available to us after this date.

Our opinion on the consolidated financial statements does not cover other information and we will not express any form of assurance conclusion on it. With respect to the consolidated management report 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 this other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or the knowledge we have obtained during the audit, or otherwise appears to be materially misstated.

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 is 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 in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than that for misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls 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, determine whether material uncertainty exists in relation to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention report to the related disclosures in the consolidated financial statements in our auditor's 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 gives 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 the internal control system 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 that were of most significance in the audit of the consolidated financial statements for the reporting period and are therefore key audit matters. We describe these matters in our auditor's report unless laws or regulations preclude 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. With respect to the consolidated non-financial statement included in the consolidated management report, our responsibility is to determine whether it had been prepared, to read it and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code and the Austrian Banking Act.

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 is 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 consolidated financial statements, we have not identified any 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 as auditors by the annual general meeting on 3 March 2020 and commissioned by the supervisory board on 3 March 2020 to audit the consolidated financial statements for the financial year ended 31 December 2021. We have been auditing the Group uninterrupted since the financial year ending 31 December 1992.

We confirm that our opinion expressed in the section *Report on the audit of the consolidated financial statements*, above, is consistent with the additional report to the audit committee referred to in Article 11 Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) Regulation (EU) No 537/2014 and that we remained independent of the Group when conducting the audit.

Engagement partner

The engagement partner responsible for the audit is Mr. Thomas Becker.

Vienna

23 February 2022

Deloitte Audit Wirtschaftsprüfungs GmbH

Thomas Becker m.p.	ppa Christoph Tiefenböck m.p.
Certified public accountant	Certified public accountant

3 REPORT OF THE SUPERVISORY BOARD

In 2021 the Supervisory Board comprised Günther Ofner, Michael Lentsch, Birgit Kuras, Peter Böhm, Sabina Fitz-Becha, Rainer Gutleder, Franz Gyöngyösi, Claudia Mikes, Johann Penz, Ulrike Prommer, Karl Schlögl and Hubert Schultes. The Annual General Meeting (AGM) held on 3 March 2020 saw the election of the shareholder representatives for the period up to the end of the AGM that will rule on the discharge of the Board from liability in 2024.

In 2021 there were four plenary meetings of the Supervisory Board, Loan Committee and Audit Committee, as well as two meetings each of the Nominations, Risk and Remuneration committees. All the meetings complied with the legal regulations and the articles of association. The Supervisory Board was constantly kept informed by the sitting chairperson as to the matters discussed by the committees.

In the course of their activities, the Supervisory Board and its committees closely monitored the Bank's business performance. Due to the continuing Covid-19 pandemic, in 2021 there was once again a tighter focus on risk management and business developments in order to maintain smooth operations. Business processes were subjected to critical scrutiny, and their workability was monitored, *inter alia*, with the assistance of reports from Internal Audit, while reports from the Risk Management Department were drawn on to evaluate the risk position.

In 2021 the Supervisory Board thus discharged the duties incumbent upon it by virtue of the law and the articles of association, and was kept regularly informed by the Management Board on the course of business and the state of the Bank's and the Group's affairs.

The accounts and records, the **2021 annual financial statements, and the operational and financial review** of HYPO NOE Landesbank für Niederösterreich und Wien AG, to the extent that it discusses the annual financial statements, have been audited by the independent auditors, Deloitte Audit Wirtschaftsprüfungs GmbH. As the audit gave rise to no objections and the statutory requirements were fully complied with, the auditors issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings, is in agreement with the recommendation of the Audit Committee and the annual financial statements for the year ended 31 December 2021, and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board, and hereby approves the 2021 annual financial statements in accordance with section 96(4) Austrian Companies Act.

The auditors Deloitte Audit Wirtschaftsprüfungs GmbH audited the **2021 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 2021, and of its earnings and cash flows for the year then ended, in accordance with IFRS as adopted in the EU, and the additional requirements of section 59a Banking Act. The auditors hereby confirm that the Group operational and financial review is consistent with the consolidated financial statements, such that the statutory requirements for exemption from the obligation to prepare consolidated financial statements according to Austrian law are fulfilled, and issue an unqualified audit certificate. The Supervisory Board has concurred with the audit findings.

St. Pölten, 4 March 2022
The Supervisory Board

Günther Ofner
Chairperson

LIST OF ABBREVIATIONS

ABGB	*Allgemeines bürgerliches Gesetzbuch* (Civil Code)
AC	amortised cost
AG	*Aktiengesellschaft* (public limited company)
ALM	Asset Liability Management
ALMM	additional liquidity monitoring metrics
Art.	Article
BaSAG	*Bundesgesetz über die Sanierung und Abwicklung von Banken* (Federal Act on the Recovery and Resolution of Banks)
BCBS	Basel Committee on Banking Supervision
BCM	business continuity management
bn	billion
bps	basis points
Brexit	British exit from the European Union
BWG	*Bankwesengesetz (*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
e.g.	for example
EAD	exposure at default
EAR	exposure at risk
EBA	European Banking Authority

ECB	European Central Bank
ECF	expected cash flow
ECL	expected credit loss
EIR	effective interest rate
EL	expected loss
EPC	European Payments Council
ESA	European System of Accounts
EU	European Union
EUR ‘000/EUR thsd	thousand euro
EUR m	million euro
EUR	euro
EURIBOR	Euro Interbank Offered Rate
EWU	EWU Wohnbau Unternehmensbeteiligungs-GmbH
FI	financial institutions
FLG	Federal Law Gazette
FMA	Austrian Financial Market Authority
FV	fair value
FVO	fair value option
FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss
FX	foreign exchange
GmbH	*Gesellschaft mit beschränkter Haftung* (limited liability company)
HETA	Heta Asset Resolution AG
HFT	held for trading
HIBH	HYPO NOE Immobilien Beteiligungsholding GmbH
HQLA	high quality liquid assets
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
IFRS IC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
IIA	individual impairment allowances
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
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 available
NID	NOE Immobilien Development AG
NÖ	Niederösterreich (Lower Austria)
no.	number
NPL	non-performing loan
NR	not rated
NSFR	net stable funding ratio
OCI	other comprehensive income
OCR	overall capital requirements
OeNB	Oesterreichische Nationalbank (Austrian central bank)
OIS	overnight index swap
OLS	ordinary least squares
OpRisk	operational risk
OTC	over the counter
P&L	profit and loss
p.a.	per annum
para.	paragraph
PD	probability of default
PfBrStG	*Pfandbriefstelle-Gesetz* (Pfandbriefstelle Act)
PiT	point in time
POCI	purchased or originated credit impaired
RICO	Risk Management Committee
RMA	risk management annexes
ROE	return on equity
RWA	risk weighted assets
S&P	Standard & Poor’s

SFR	stable funding ratio
SIC	Standing Interpretations Committee
SME	small and medium enterprise
SPPI	solely payments of principle and interest
SREP	supervisory review and evaluation process
StabAbgG	*Stabilitätsabgabegesetz* (Stability Contribution Act)
TSCR	total SREP capital requirements
TTC	through the cycle
UGB	*Unternehmensgesetzbuch* (Austrian Business Code)
VaR	value at risk
WEG	*Wohnungseigentumsgesetz* (Home Ownership Act)
WGG	*Wohnungsgemeinnützigkeitsgesetz* (Non-profit Housing Act)

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Important information

The greatest possible care has been taken in producing this report. However, transmission, typesetting and printing errors cannot be ruled out. Minor rounding differences may occur in connection with totals of rounded amounts and percentages.

The forecasts and forward-looking statements contained in the report are based on current estimates and information available at the time of writing. They should not be taken as an undertaking that results expressed in forecasts and forward-looking statements will occur; actual results are subject to risks and other factors which could lead to material differences. The Group is under no obligation to update its forecasts and forward-looking statements.

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