FINANCIAL FACT SHEET FOR THE QUARTER ENDED **31 MARCH 2017**

The Group is under no legal obligation to publish interim reports. This report does not fully comply with, and was not drawn up in accordance with International Financial Reporting Standards (IFRSs).
In particular, paragraphs 8d (statement of cash flows) and 8e (disclosures) IAS 34 were not fully applied. This report should therefore be read in conjunction with the consolidated annual financial statements as at 31 December 2016.
This report was neither fully audited nor reviewed by independent auditors.

HYPO NOE GRUPPE

Group financial highlights

EUR '000		31 Mar. 2017	31 Mar. 2016	31 Dec. 2016
Total assets		**15,938,007**	**16,219,761**	**15,392,051**
Total eligible core capital in accordance with CRR/CRD IV		**631,015**	**596,014**	**632,730**
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR		16.19%	13.23%	16.34%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR – fully phased in		16.40%	13.62%	16.78%
Total capital ratio in accordance with Art. 92(2)(c) CRR		16.69%	14.66%	17.10%
Total capital ratio in accordance with Art. 92(2)(c) CRR – fully phased in		16.90%	15.04%	17.53%
Return on equity (ROE) before tax		0.5%	2.5%	15.2%
Operating ROE before tax	[1]	9.5%	10.1%	18.5%
ROE after tax		0.6%	1.9%	11.4%
Cost/income ratio (CIR)	[2]	100.1%	103.8%	56.0%
Operating CIR	[1]	65.3%	73.9%	46.3%

[1]Change in calculation in 2016: operating CIR and operating ROE include the costs of contributions to the deposit insurance fund; the figures for the previous year have been adjusted.
[2]CIR as at 31 March 2017 includes the entire costs of the supplementary financial stability contribution and the contributions to the deposit insurance fund and resolution fund for 2017. On a pro forma basis, CIR would have amounted to 72.8% if the contributions had been reported by period.

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Economic climate

Global economic and financial market developments

The global economic recovery continued in the first quarter of 2017. In the US, consumer and business sentiment reached levels last seen in 2001, mainly in expectation of economic stimulus measures promised by the new administration. This positive sentiment is yet to reach the real economy, which is nevertheless expected to grow at a pace in line with or slightly above potential as things stand. In spite of increased political uncertainty in some European countries, changes in leading indicators point to a further acceleration in economic growth. The same goes for emerging economies. Inflation rates rose sharply at the end of last year and the beginning of this, due to statistical base effects resulting from the about-turn in raw material prices. Headline inflation in the United States reached 2.8% in February, while prices rose at a rate of 2.0% in the eurozone. As expected, at the end of March the Federal Reserve raised interest rates for the third time in the current cycle of increases, and also signalled that rates could go up twice more in 2017. The ECB's monetary policy remains expansive, although solid economic performance and the marked increase in inflation suggest that the bank could gradually move away from its unconventional policy. In addition, the ECB's asset purchase programme appears to be slowly pushing up against the technical limitations inherent in its design.

Irrespective of the brighter economic climate, the political situation in Europe is currently rather fragile, and it remains to be seen how the direction of central banks' monetary policies will change, in light of the fact that some options have already been exhausted, at least partially, as a result of past measures. On 29 March, the United Kingdom officially informed the EU of its intention to leave the Union. The resulting implications of Brexit will only become clear in the course of long negotiations on the conditions for the UK's withdrawal and the nature of collaboration with the EU in future. In the Netherlands, predictions of a neck-and-neck election race between Prime Minister Mark Rutte and right-wing populist Geert Wilders were wide of the mark, with the incumbent ultimately winning by a wide margin. Complex negotiations began on the formation of a four-party coalition headed by Rutte, a reflection of the country's fragmented political landscape. However, the election result has averted a discussion of the Netherlands' withdrawal from the EU and the euro for the time being. Strong support for the Front National in France's upcoming presidential and parliamentary elections could heighten political uncertainty within the EU. As far as the new US administration is concerned, the threat of protectionist trade measures remains, and it is difficult to predict the direction of future policy.

Improved sentiment sparked by the new American President's promises of economic growth shaped developments on financial markets in the first three months of this year. Strong economic performance and an improved profit outlook for businesses were especially good news for equity markets, and the main indices rallied by between 5% and 10% between the start of the year and the end of the first quarter. The increase in market interest rates, which began in July 2016, has stalled recently. Markets' expectations for interest rate rises are still well below the increases proposed by the Federal Reserve. Movements in the prices of eurozone government bonds have varied from country to country. In spite of a modest recovery since the lows of summer 2016, yields on German bunds are still very low, while spreads in France and some peripherals widened substantially during the quarter, mainly as a result of upcoming elections.

Economic trends in the HYPO NOE Group's core markets

Austria

In mid-December 2016 the Oesterreichische Nationalbank (OeNB) reported that the Austrian economy had grown by 1.4% in 2016 (eurozone: 1.6%, EU-28: 1.9%). After four years of sub-1% growth, the country's economy has now picked up speed again. The WIFO (Austrian Institute of Economic Research) believes that the Austrian economy could grow more strongly in 2017, and sees growth reaching 2.0%. Domestic demand remains strong and exports are again making a bigger contribution to growth. Unemployment is falling and the economic upturn has now fed into the labour market, as reflected in an appreciable rise in the number of full-time jobs. The building sector gained ground in the opening quarter of 2017 and seems to be emerging from crisis.

The budget deficit fell to 1.1% thanks to the latest GDP revision. Due to the most recent tax reform, some spending will not be offset by government revenue, which could put pressure on the budget in the medium term. Thanks to the resolution of the Heta situation in 2016, it can be assumed that government debt will fall somewhat in the medium term (target: 77.5% by 2019), and that the massive contingent liabilities of the State of Carinthia will be reduced with immediate effect.

Federal states

Austria's federal states reported growth of between 1.2% and 2.4% in 2016, a significant increase compared to the previous year. Lower Austria and Upper Austria achieved the highest year-on-year gains, with growth amounting to around 2.5% for each, primarily due to expansion in the services industry. The latest forecasts suggest that this positive trend in regional growth will continue in 2017.

There is a clear and welcome trend towards debt reduction by the Austrian state governments, with aggregate debt including guarantees down by almost 10% since 2014. Guarantees extended by the State of Lower Austria fell from around EUR 13bn in 2011 to about EUR 10bn in 2015. 43% of Lower Austria's guarantees are attributable to the State's liabilities in connection with subsidised home loans sold over the past few years. As at year-end 2015, 38% or EUR 3.96bn was accounted for by State-backed bonds issued by HYPO NOE, the majority of which will mature by September 2017.

In terms of assets, Vienna leads the way in a comparison of the Austria federal states, followed by Lower Austria. More than a third of Lower Austria's assets, or EUR 5.6bn, is accounted for by subsidised home loans, which are – as borne out by previous transactions – highly utilisable and secured against the land register.

Danube region

According to the latest available forecasts, most of the countries in the HYPO NOE Group's extended core market – with the exception of Germany – will again record growth well above the EU average in 2017. Romania posted the strongest growth in the Danube region in 2016, at 4.8%. This was primarily driven by a VAT reduction and a significant increase in the minimum wage. Growth in the other economies in the region ranged from 2.0% to 3.2%. Lending to private households increased by 5-8% in all countries in the Danube region with the exception of Hungary. However, lending to businesses in the region only increased in Poland and the Czech Republic. As things currently stand, economic growth in the Danube region will – as expected – be roughly in line with last year's level, with private consumption again one of the main growth drivers.

Public-sector investment was subdued across the board in 2016, with the exception of Poland, even though the significant decline in public refinancing costs has increased the incentives to implement more expansive fiscal policies and invest in infrastructure projects. At present, it is assumed that public-sector investment, which faltered recently, will bounce back this year, since investments subsidised by the EU will make themselves felt in full from 2017 onwards, following a sluggish start to the programme last year.

Banking sector trends in the eurozone and CEE

Europe's banks are still facing challenging conditions, although aggregate profits for last year have surpassed expectations. However, a closer analysis clearly reveals that profit expectations were exceeded threefold, because sector-wide losses of EUR 1.6bn had been assumed. Recent data again show that the banking sector has stabilised, but the problem of relatively weak profitability persists. This is still attributable to the low level of interest rates, as well as regulatory costs. Legal risks arising from past events are also weighing on some banks' earnings. There have been signs of significant improvements in capital adequacy in recent years. Bank regulators have expressed their satisfaction with the progress made in stabilising Europe's financial institutions, which was reflected in the results of the European Banking Authority (EBA) bank stress tests in 2016. Improved capitalisation has made European banks more resistant to fluctuations in economic conditions. The agreement between the Italian government and the EU on the establishment of a bad bank sparked discussion at the EU level on implementing such a model for Europe as a whole. The EBA, ECB and the EU Commission have all backed such a plan. The EBA has proposed a pan-European asset management company (AMC) to purchase non-performing loans (NPLs), with a view to addressing the high level of NPLs, which currently total around EUR 1tn – a problem that has persisted for several years. The ultimate goal is to boost lending, especially in the countries on the EU periphery, by removing the burden on banks' balance sheets. Transferring NPLs into an EU pot would "communitise" risks, a point which has attracted criticism from some quarters. Nevertheless, reducing NPLs is one of the focal points of the ECB's bank regulation activities in 2017.

Austrian banks' capital adequacy has improved significantly since the financial crisis erupted, a trend that is set to continue in 2017. Persistently low interest rates coupled with regulatory requirements still pose a challenge to banks in Austria. Structural reforms have already been implemented in response to this situation.

Stricter capital regulations, a high degree of regulatory influence and the continuing low level of interest rates remain a significant burden on profitability in the CEE banking sector. That said, there are still opportunities for growth, given solid expansion in the banking sector as a whole and the continued upturn in the retail sector. Increased lending is principally underpinned by falling interest rates. Danube region banks' return on equity has increased over the past few years and now averages 6.7%.

Financial review

Key developments in the first quarter of 2017

Earnings (IFRS)

Profit for the period attributable to owners of the parent was down year on year, at EUR 0.6m (Q1 2016: EUR 2.6m). This figure includes substantial one-off payments that fell due in the first quarter of 2017, namely the supplementary financial stability contribution, which was payable for the first time in 2017, and contributions to the resolution and deposit insurance funds totalling EUR 15.0m (Q1 2016: EUR 12.0m). The full-year amounts were reported for each of these contributions, which were mainly attributable to the Gruppe Bank segment. Although this had a significant impact on profit for the first quarter of 2017, no such expenses will be reported in the remaining three quarters of this year. The Landesbank and Leasing segments delivered pre-tax profits, while the Gruppe Bank and Other segments reported a minor loss. Interest rates remained low, but net interest income was high in the opening three months of 2017, at EUR 30.3m, which was only EUR 0.5m lower than the EUR 30.8m reported in the same period in 2016.

Net fee and commission income went up by EUR 0.4m to EUR 3.8m (Q1 2016: EUR 3.4m).

As in the like period of 2016, the Group reported net gains on credit risk provisions, of EUR 0.8m (Q1 2016: EUR 5.0m), although this represented a year-on-year decline of EUR 4.2m owing to a fall in reversals and increased allocations.

Net trading losses were also down on the comparative period, at EUR 0.3m (Q1 2016: EUR 12.2m). This was a result of foreign exchange losses on CHF-denominated forward exchange transactions, which were offset by corresponding foreign currency cash transactions recognised in net other operating income (EUR 1.4m), and of earnings contributions from interest rate transactions, largely resulting from the difference between the measurement of customer derivatives and the related hedges.

Administrative expenses rose by 8.2% or EUR 3.1m, to EUR 41.4m (Q1 2016: EUR 38.3m), mainly as a result of the supplementary financial stability contribution (“bank tax”) of EUR 6.8m, which was payable for the first time during the period under review. The total financial stability contribution, including the current levy, was EUR 7.5m, compared with EUR 3.7m in the first quarter of 2016. The statutory contributions to the deposit insurance and resolution funds, which are reported under other administrative expenses and are not recognised by period, amounted to EUR 8.2m (Q1 2016: EUR 8.3m) and also had an adverse effect on profit in the first three months of 2017. Operating administrative expenses, which do not include the total expense for the financial stability and resolution fund contributions and regulatory costs, went down year on year, to EUR 27.0m (Q1 2016: EUR 28.9m).

The net gains of EUR 1.5m on investments accounted for using the equity method (Q1 2016: EUR 0.2m) primarily resulted from the rise in value in use at the non-profit EWU subgroup (Gruppe Bank segment).

Net other operating income was EUR 8.0m, compared with EUR 11.6m in the first three months of 2016. This also includes measurement gains and losses on cash transactions in the current period. The offsetting foreign currency gains and losses on forward exchange operations (EUR 1.4m) that were not hedging transactions are included in net trading income.

Profit before tax was EUR 0.8m, EUR 2.8m lower than in the same period a year earlier (Q1 2016: EUR 3.6m).

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

		Q1 2017	Q1 2016	2016	2015
Return on equity (ROE) before tax**	Profit or loss for the year before tax/ave. equity	0.5%	2.5%	15.2%	2.0%
Operating ROE before tax** ***	ROE before tax excl. financial stability and resolution fund contributions, and regulatory costs/ave. equity adjusted for financial stability and resolution fund contributions, and regulatory costs	9.5%	10.1%	18.5%	5.6%
ROE after tax**	Profit or loss for the year/ave. equity	0.6%	1.9%	11.4%	1.1%
Cost/income ratio (CIR)[1]	Operating expenses/operating income*	100.1%	103.8%	56.0%	92.5%
Operating CIR***	CIR excl. financial stability and resolution fund contributions, and regulatory costs	65.3%	73.9%	46.3%	77.3%
Risk/earnings ratio	Credit provisions/net interest income A negative indicator signifies income and a positive indicator signifies expenses in credit provisions	-2.8%	-16.2%	6.3%	-0.9%

*Operating expenses include administrative expenses. These comprise staff costs, other administrative expenses and depreciation, amortisation and impairment. Operating income comprises net interest income, net fee and commission income, net trading income, net other operating income, net gains or losses on investments accounted for using the equity method, net gains or losses on financial assets, net gains or losses on hedges and net gains or losses on other financial investments

**Intrayear indicators annualised on a per diem basis.

***Change in calculation in 2016: operating CIR and operating ROE include the costs of contributions to the deposit insurance fund; the figures for the previous year have been adjusted.

[1]CIR as at 31 March 2017 includes the entire costs of the supplementary stability contribution and the contributions to the deposit insurance fund and resolution fund for 2017. On a pro forma basis, CIR would have amounted to 72.8% if the contributions had been reported by period.

Assets and liabilities (IFRS)

The HYPO NOE Group’s total assets rose by 3.5% compared with year-end 2016, to EUR 15.9bn as at 31 March 2017.

There was a EUR 0.4bn increase in cash and balances at central banks and a EUR 0.6bn rise in loans and advances to banks, while loans and advances to customers declined by EUR 0.3bn.

On the equity and liabilities side, deposits from customers rose by EUR 0.3bn, and debts evidenced by certificates went up by EUR 0.2bn, mainly due to the EUR 500m benchmark public-sector covered bond issue.

Changes in equity (IFRS)

IFRS consolidated equity including non-controlling interests as at 31 March 2017 was EUR 640.9m, a decrease of EUR 6.5m on year-end 2016. This was principally due to the distribution of dividends.

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

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

Consolidated eligible capital in accordance with the CRR was EUR 631.0m as at 31 March 2017 (31 Dec. 2016: EUR 632.7m). Surplus capital as at 31 March 2017 was EUR 328.5m (31 Dec. 2016: EUR 336.7m), in comparison with a capital requirement of EUR 302.5m (31 Dec. 2016: EUR 296.0m). The core capital ratio in accordance with Article 92(2)(b) CRR was 16.2% as at 31 March 2017 (31 Dec. 2016: 16.3%), and 16.4% assuming a fully phased-in definition of capital (31 Dec. 2016: 16.8%). The total capital ratio in accordance with Article 92(2)(c) CRR was 16.7% (31 Dec. 2016: 17.1%), and 16.9% assuming a fully phased-in definition of capital (31 Dec. 2016: 17.5%).

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

Operational review

Gruppe Bank segment

The Group's parent, HYPO NOE Gruppe Bank AG, traditionally operates in its core Austrian market, and is committed to promoting the long-term development of its home region of Lower Austria and Vienna, in line with its status as a regional bank. With the State of Lower Austria as its sole shareholder, the Group is in a position to build on the foundations provided by such stable and reliable ownership. Within the Group, HYPO NOE Gruppe Bank AG is mainly responsible for servicing large customers – chiefly state and local government clients – in Austria and selected Danube region countries. The product portfolio focuses primarily on financing for social and hard infrastructure, as well as corporate, project, structured and real estate finance, and treasury solutions.

Besides its core Austrian market – in particular the states of Lower Austria and Vienna – HYPO NOE Gruppe Bank AG concentrates on the Danube region, which comprises Bulgaria, the Czech Republic, Germany, Hungary, Poland, Romania and Slovakia. In order to deliver comprehensive customer service and optimum risk assessment, the Bank has representative offices in Bucharest, Budapest, Prague and Sofia.

A solid A/A-1 issuer rating with a "stable" outlook from Standard & Poor's reflects the creditworthiness of HYPO NOE Gruppe Bank AG, which is among the best-rated banks in Austria. Moody's confirmed its Aa1 rating on HYPO NOE Gruppe Bank AG's public sector and mortgage cover pools.

Public Finance

The Public Finance Department is a strong partner for local and regional authorities, public agencies and infrastructure companies. In 2017, the department will continue to focus on intensifying the provision of advice on bespoke finance solutions to such customer groups in its core Austrian market, as well as in selected countries and major cities covered by the Danube region strategy.

There is increasing demand from state governments and local authorities for a variety of special financing models for public building construction projects. The department's prime objectives are to develop sustainable, integrated solutions for customers, in collaboration with other parts of the Group, and increasingly to act as a provider of expertise and services. Public Finance offers risk-aware advice and services based on knowledge of customers' specific needs, in line with HYPO NOE Gruppe Bank AG's philosophy.

Construction work on the new Karl Landsteiner University of Health Sciences in Krems was completed during the first quarter of 2017. An extension and renovation programme at the Hainfeld state care home started during the period under review. The department won the tender for lease financing of an extension at the state care home in Melk, and the project is due to be completed by autumn this year.

With a view to providing proactive, long-term customer service, maintaining current relationships with local authorities and their representatives remains a priority for Public Finance. The department regularly stages events – for example, in cooperation with the Lower Austria Community Management Academy – in order to build long-term relationships. Public Finance continues to promote face-to-face dialogue at various specialist events, such as mayors' day, municipal authorities' day and the annual meeting of the Association of Austrian Municipalities.

Real Estate Finance

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

In the first quarter of 2017 the department maintained its focus on its core markets, in particular Austria, the Czech Republic, Germany, Poland, Romania and Slovakia. With lending conditions rapidly becoming more and more borrower-friendly, leading analysts in Germany are still predicting a sharp increase in permitted lending limits, and anticipate the emergence of 100% mortgages on certain properties as early as this year. Real Estate Finance will therefore concentrate on expanding its activities in other target markets where funding parameters for comparable projects can still be brought into line with the balanced risk profile of the overall portfolio.

Low interest rates and record low returns on alternative investments have led to sharp increases in demand across most real estate categories, especially city centre rental apartment buildings. Central Europe's commercial and residential property markets are still among the most attractive in the world for foreign investors.

The volume of financing relating to commercial property is expected to remain roughly at last year's levels in 2017. The department will maintain a strong focus on optimising earnings potential and achieving an appropriate risk-return ratio by selectively acquiring new customers among institutional investors, funds and property developers.

The department's business model is based on financing for the office, shopping centre, retail park, housing, logistics and city hotel asset classes. Portfolios of mixed-use properties in various locations and with a wide range of tenants also serve to significantly diversify risk. As regards risk allocation, Real Estate Finance remains committed to cooperating with established partners on projects in prime locations, under long-term financing arrangements. In 2017, operations will again centre on the core Austrian and German markets, and on neighbouring EU member states. Real Estate Finance is keeping a close watch on macroeconomic developments and regional property market trends in its target markets outside Austria.

Corporate & Structured Finance

The Corporate & Structured Finance Department (CSF) is responsible for HYPO NOE Gruppe Bank AG's large customer and structured finance operations.

The first quarter of 2017 was shaped by the continuation of an intensive customer acquisition drive that started at the end of 2016. Especially in the structured finance business – such as corporate acquisitions, management buyouts and strategic investments – there was an encouraging pick-up in the first quarter of 2017. As in 2016, the department has continued to conclude transactions with excellent risk/return profiles, thanks to exhaustive market development. In spite of a recovery in the traditional lending business, there are signs of fierce competition on terms and conditions, particularly regarding loans to customers with good ratings. On the liabilities side, there was an emphasis on further diversifying the range of available refinancing sources, and the related adaptation of maturities, with a focus on more sustained and stable, as well as longer-term customer deposits.

In its extended core market – the Danube region countries including Germany – the HYPO NOE Group continued to concentrate on interregional transactions involving Austria and the respective foreign countries.

Religious Communities, Interest Groups and Agriculture

In the first quarter of 2017, the Religious Communities, Interest Groups and Agriculture Department (KIA) carried on expanding its portfolio of agricultural customers. To this end, HYPO NOE Landesbank AG set up an in-house competence centre for agriculture.

The department's product portfolio includes:

- Finance for social and public facilities, such as care and social centres, educational facilities, day centres and associated office buildings
- Finance for the renovation and revitalisation of churches and church buildings
- Finance for large agribusinesses, especially food processing and retailing, and for farmers based in the region
- Money market investments
- Ethical and sustainable investment

Deposits in the money market business remained high, despite low interest rates and the related change in customer behaviour.

Due to a lack of alternatives, there is also demand for investments in cover pools, even though the expected returns are low. Investment is still focused on ethical and sustainable securities.

KIA's customers have access to the Group's full range of real estate services, ranging from valuations, construction management and administration to estate agency and facility management for the properties and projects concerned. This portfolio covers the Group's firmly established, tried-and-tested concept of the real estate value chain.

Treasury and Funding

Thanks mainly to the resolution of the Heta situation last year, market conditions continued to brighten in the first quarter of 2017. Consequently, in mid-January HYPO NOE Gruppe Bank AG placed another senior unsecured benchmark bond on the Swiss market. The initial value of the five-year issue was CHF 110m, but this was raised to CHF 125m before the value date in light of the strong interest from investors. HYPO NOE Gruppe Bank AG has recorded the narrowest senior unsecured spread of any Austrian bank in the past four years, and its second CHF-denominated benchmark issue since autumn 2016 underscored the Bank's successful return to the Swiss capital market.

In March 2017 the Bank again emphasised its strong position on the capital markets by completing Austria's first benchmark public-sector covered bond issue with a soft-bullet repayment structure. The EUR 500m, six-year covered bond was placed with a low-single-digit premium over the mid-swap rate. The benchmark issue was significantly oversubscribed, resulting in considerable tightening of the secondary market curve for HYPO NOE Gruppe Bank AG's outstanding debt.

Acquisitions made for the liquidity portfolio during the first quarter included attractive new primary-market issues in the covered bond segment, as well as secondary-market purchases of government bonds and government-guaranteed paper with very good credit ratings. The Bank achieved a positive spread in spite of the very solid average volume-weighted AA+ ratings of the purchased securities, as well as further energetic buying by central banks.

Institutional Customers

In the first quarter of 2017, constant maintenance of relationships with other financial institutions remained an important aspect of HYPO NOE Gruppe Bank AG's philosophy. As in previous years, the Bank continued to actively manage its business links with numerous banks in Austria and abroad, as well as its relationships with insurance companies, pension funds and investment companies. Once again, the now-traditional earnings call for international investors, as well as the investors' luncheon for local capital market partners, held at Vienna's Palais Hansen Kempinski, took place as part of the announcement of the 2016 annual results. Regular dialogue with investors – including meetings at investors' premises – in collaboration with capital market partners inside and outside Austria was the focus of attention at the beginning of 2017, due primarily to the definitive resolution of the Heta situation at the end of last year. In this regard, a number of roadshows were held, including a two-week, Europe-wide roadshow in preparation for the latest benchmark issue. With the support of the Management Board, visits were paid to investors in Germany, Austria, Italy and the Nordic Countries in order to highlight the HYPO NOE Group's strong creditworthiness and promote the transaction, which was ultimately very successful. Ongoing communication with correspondent banks is another key aspect of the Bank's financial market communications.

Foreign branches, representative offices and branches

HYPO NOE Gruppe Bank AG had no foreign branches in the first quarter of 2017, but operated four representative offices, in Bucharest, Budapest, Prague and Sofia.

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

Landesbank segment

HYPO NOE Landesbank AG

HYPO NOE Landesbank AG is responsible for the HYPO NOE Group's retail banking and housing development businesses. The Bank has defined "finance and housing", "saving and investment" and "accounts and cards" as its core competences.

HYPO NOE Landesbank AG's branches provide outstanding service to private, self-employed and corporate customers in the Group's core market of Lower Austria and Vienna.

In terms of the strategic pillars mentioned above, HYPO NOE Landesbank AG posted particularly strong performance in saving and investment – in spite of the prevailing market conditions – thanks to a streamlined and attractive product range.

In parallel, the "finance and housing" pillar was prioritised, with a focus on subsidies. Close cooperation with the State of Lower Austria enables the Bank to offer end-to-end support on loans and subsidies.

Services for small and medium-sized enterprises (SMEs) in Lower Austria and Vienna have been further optimised and extended this year with the introduction of regional corporate relationship managers based in larger branches.

HYPO NOE Landesbank AG set up a new competence centre for agriculture in the first quarter of 2017. A specialist product range is available to farmers either fully or partially subject to lump-sum taxation, as well as agricultural businesses preparing accounts on a cash basis and those obliged to keep accounts. On the financing side, a newly developed agricultural rating tool for working capital and investment finance enables credit assessment tailored to the customer in question. The comprehensive service portfolio also includes support in connection with subsidies and their administration.

HYPO NOE Landesbank AG expanded its customer base in housing development and the financing business during the quarter. HYPO NOE further consolidated its brand with the help of specialist payment transaction products.

HYPO NOE Landesbank AG took steps internally to address the continuing advances in digitalisation. Following the successful launch of the HYPO NOE mobile banking app and video-based customer advice, digitalisation-related activities will be further intensified in 2017, with the aim of providing comprehensive customer support and ensuring effective cost management.

Work and preparations connected with the merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG are progressing on schedule.

Leasing segment

HYPO NOE Leasing GmbH

HYPO NOE Leasing GmbH and its project companies look after the leasing business with the public sector as a whole, and the Lower Austrian state government in particular. Its core competency is complex lease agreements connected with real estate projects. Against the backdrop of changing public-sector financing needs, the company has seen increasing demand for operating leases and PPP models.

Performance in the first quarter of 2017 was very satisfactory in terms of earnings and the value of contracts concluded. This trend is expected to continue for the remainder of the year. At present, there is strong demand for infrastructure finance in the education sector.

Other segment

HYPO NOE Immobilien Beteiligungsholding GmbH

In 2015 the HYPO NOE Group's real estate business, comprising **HYPO NOE Real Consult GmbH** and **HYPO NOE First Facility GmbH**, was merged into **HYPO NOE Immobilien Beteiligungsholding GmbH**. In line with the primary goal of providing a one-stop shop for the entire real estate management value chain, the holding company brings together construction, facility and property management, real estate sales and brokerage services, and cross-selling functions, with a focus on Lower Austria and Vienna.

HYPO NOE Real Consult GmbH is currently managing construction projects with combined costs of around EUR 320m. Key projects include the nursery extension at the Institute of Science and Technology Austria (IST Austria), for which the timeframe for completion is particularly tight. In the sales and estate agency business, the focus in the opening three months of 2017 was on the disposal of residential units in the Ghelengasse project in Vienna's 13th district. Working in collaboration with HYPO NOE First Facility GmbH, in the first quarter of 2017 the property management unit won the contract for management of the Niederösterreich Haus municipal administration building in Krems.

In addition to providing products in energy management as well as measurement and control services, **HYPO NOE First Facility GmbH** is broadening its skills and service offerings in the health sector and the uninterruptible power supply (UPS) business. It also offers bespoke solutions based on PPP models. In order to emphasise the high quality of its services, in 2016 HYPO NOE First Facility GmbH obtained ISO 9001:2015 certification and the GEFMA 730 ipv® FM Excellence Certificate (the highest level of certification). HYPO NOE First Facility's subsidiaries operating in the Danube region have also managed to drive forward new business acquisition recently by attracting some new, high-profile customers and winning new contracts.

Accounting and measurement policies

Essentially the same accounting policies were applied to this quarterly report as to the consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2016.

This report was neither fully audited nor reviewed by independent auditors.

The Group is under no legal obligation to publish interim reports. This report does not fully comply with, and was not drawn up in accordance with International Financial Reporting Standards (IFRSs).

In particular, paragraphs 8d (statement of cash flows) and 8e (explanatory notes) IAS 34 were not fully applied and this report should therefore be read in conjunction with the consolidated annual financial statements as at 31 December 2016.

STATEMENT OF COMPREHENSIVE INCOME

Earnings are reported as positive amounts and expenses as negative amounts in the statement of comprehensive income.

Profit or loss (EUR '000)	Q1 2017	Q1 2016
Interest and similar income	134,045	141,456
Interest and similar expense	-103,745	-110,667
Net interest income	**30,300**	**30,789**
Credit provisions	846	4,980
Net interest income after risk provisions	**31,146**	**35,769**
Fee and commission income	4,511	4,185
Fee and commission expense	-740	-800
Net fee and commission income	**3,771**	**3,385**
Net trading income	-292	-12,218
Administrative expenses*	-41,423	-38,290
Net other operating income	8,038	11,565
Net gains or losses on investments accounted for using the equity method	1,531	243
Net gains or losses on available-for-sale financial assets	7	-18
Net gains or losses on financial assets designated as at fair value through profit or loss	52	-24
Net gains or losses on hedges	-2,014	3,168
Net gains or losses on other financial investments	-5	14
Profit before tax	**811**	**3,594**
Income tax expense	203	-901
Profit for the period	**1,014**	**2,693**
Non-controlling interests	-385	-123
Profit attributable to owners of the parent	**629**	**2,570**

Other comprehensive income (EUR '000)	Q1 2017	Q1 2016
Profit attributable to owners of the parent	**629**	**2,570**
Items that will not be reclassified to profit or loss		
Items that may be reclassified subsequently to profit or loss		
Other changes (before tax)	*-*	*6*
Change in available-for-sale financial instruments (before tax)	*-663*	*2,513*
Exchange differences on translating foreign operations accounted for using the equity method (before tax)	*-*	*1*
Change in deferred tax	*166*	*-629*
Total other comprehensive income	**-497**	**1,892**
Total comprehensive income attributable to owners of the parent	**132**	**4,462**

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

*Administrative expenses include the financial stability contribution ("bank tax") of EUR 7,489thsd (31 Mar. 2016: EUR 3,720thsd), as well as contributions to the deposit insurance and resolution funds totalling EUR 8,238thsd (31 Mar. 2016: EUR 8,281thsd).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Items are reported as positive amounts on both the assets and liabilities sides; negative amounts result in a reduction in total assets.

Assets (EUR '000)	31 Mar. 2017	31 Dec. 2016
Cash and balances at central banks	593,039	164,587
Loans and advances to banks	1,574,285	998,347
Loans and advances to customers	10,551,297	10,854,932
Risk provisions	-94,590	-97,462
Assets held for trading	518,655	555,293
Positive fair value of hedges (hedge accounting)	436,724	483,215
Available-for-sale financial assets	1,844,331	1,967,148
Financial assets designated as at fair value through profit or loss	20,078	20,340
Investments accounted for using the equity method	31,272	29,922
Investment property	53,692	54,117
Intangible assets	861	918
Property, plant and equipment	76,504	77,525
Current tax assets	22,830	20,333
Deferred tax assets	2,356	1,443
Other assets	306,673	261,393
Total assets	**15,938,007**	**15,392,051**

Equity and liabilities (EUR '000)	31 Mar. 2017	31 Dec. 2016
Deposits from banks	1,539,884	1,462,298
Deposits from customers	4,166,379	3,847,855
Debts evidenced by certificates	7,928,653	7,698,831
Liabilities held for trading	471,568	502,954
Negative fair value of hedges (hedge accounting)	744,330	793,697
Provisions	42,195	50,155
Current tax liabilities	22,454	20,127
Deferred tax liabilities	34,543	36,955
Other liabilities	144,744	129,430
Subordinated capital	202,371	202,381
Equity (incl. non-controlling interests)*	640,886	647,368
Equity attributable to owners of the parent – share capital	51,981	51,981
Equity attributable to owners of the parent – reserves	580,101	586,968
Non-controlling interests	8,804	8,419
Total equity and liabilities	**15,938,007**	**15,392,051**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 Mar. 2017, EUR '000	1 Jan. 2017	Profit/loss for the year	Capital increase	Dividends paid	Other comprehensive income	31 Mar. 2017
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	359,380	630	-	-7,000	-	353,010
IAS 19 reserve	-5,484	-	-	-	-	-5,484
Available-for-sale reserve	41,301	-	-	-	-497	40,804
Currency translation reserve	-53	-	-	-	-	-53
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**638,949**	**630**	**-**	**-7,000**	**-497**	**632,083**
Non-controlling interests	8,419	385	-	-	-	8,804
TOTAL EQUITY	**647,368**	**1,015**	**-**	**-7,000**	**-497**	**640,887**

31 Mar. 2016, EUR '000	1 Jan. 2016	Profit/loss for the year	Capital increase	Dividends paid	Other comprehensive income	31 Mar. 2016
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	293,267	2,570	-	-2,000	6	293,844
IAS 19 reserve	-4,393	-	-	-	-	-4,393
Available-for-sale reserve	40,246	-	-	-	1,885	42,131
Currency translation reserve	-70	-	-	-	1	-69
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**572,855**	**2,570**	**-**	**-2,000**	**1,892**	**575,316**
Non-controlling interests	8,624	123	294	-	-	9,041
TOTAL EQUITY	**581,479**	**2,693**	**294**	**-2,000**	**1,892**	**584,357**

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

EUR 728thsd in after-tax losses on available-for-sale (AFS) financial instruments (31 Mar. 2016: gains of EUR 1,166thsd) were recycled from other comprehensive income to profit or loss.

Consolidated capital resources and regulatory capital adequacy requirements

Regulation (EU) No 575/2013 (Capital Requirements Regulation IV, CRR IV) and the directive on access to the activity of credit institutions (Capital Requirements Directive IV, CRD IV), which came into effect in 2014, require the determination of banks' consolidated own funds and consolidated regulatory own funds requirements in accordance with IFRS and with the regulatory scope of consolidation.

The Group's own funds, calculated in accordance with the CRR/CRD IV, are made up as follows:

EUR '000	CRR/CRD IV 31 Mar. 2017	CRR/CRD IV 31 Dec. 2016
Capital instruments eligible as Common Equity Tier 1 (CET1) capital	136,546	136,546
of which paid-up capital instruments	*51,981*	*51,981*
of which premiums	*84,566*	*84,566*
Reserves, differences and non-controlling interests	488,720	489,801
of which retained earnings	*348,329*	*348,792*
of which other reserves	*104,744*	*104,744*
of which transitional adjustments due to additional minority interests	*121*	*242*
of which accumulated comprehensive income	*35,526*	*36,024*
Prudential filter: adjustments based on the requirements for prudential measurement	-4,063	-4,350
Other adjustments to CET1 capital	-8,216	-16,631
Intangible assets	-752	-834
CET 1 capital	612,236	604,533
Additional Tier 1 (AT1) capital	-	-
Tier 1 (T1) capital	**612,236**	**604,533**
Holdings subject to deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible T1 capital	**612,236**	**604,533**
Paid-up capital instruments and subordinated loans	14,299	21,692
Instruments issued by subsidiaries and recognised in Tier 2 (T2) capital	4,481	6,504
of which grandfathering	*68*	*476*
T2 capital	**18,780**	**28,196**
Holdings subject to deductions pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible T2 capital	**18,780**	**28,196**
Total own funds	**631,015**	**632,730**
Capital requirement	**302,535**	**295,994**
Surplus total capital	**328,480**	**336,736**
Coverage ratio	208.58%	213.76%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	16.19%	16.34%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR – fully phased in	16.40%	16.78%
Total capital ratio in accordance with Art. 92(2)(c) CRR	16.69%	17.10%
Total capital ratio in accordance with Art. 92(2)(c) CRR – fully phased in	16.90%	17.53%

Changes in the risk-weighted exposure and the resultant own funds requirements were as follows:

EUR '000	CRR/CRD IV 31 Mar. 2017	CRR/CRD IV 31 Dec. 2016
Risk-weighted exposure for credit risk	3,322,410	3,265,067
of which 8% minimum capital requirement	265,793	261,205
Capital requirement for position, foreign exchange and commodities risk	-	-
Capital requirement for operational risk	24,557	23,704
Capital requirement for CVA	12,185	11,085
Total capital requirement	**302,535**	**295,994**

The total capital requirement as at 31 March 2017 was EUR 302.5m, an increase of EUR 6.5m or 2.2% on year-end 2016 (31 Dec. 2016: EUR 296.0m), which was mainly due to the rise in risk-weighted assets (RWAs) for credit risk.

Total eligible capital fell by EUR 1.7m, to EUR 631.0m. The largest changes related to:

- the decrease of EUR 9.4m in Tier 2 capital (reductions in eligibility due to shorter residual maturities), which was mainly offset by
- the increase in Tier 1 capital of EUR 7.7m. The AFS reserve (financial assets measured as at fair value), which is not creditable under the item "Other adjustments to CET1 capital", decreased by EUR 8.4m owing to the rise in eligibility from 60% (2016) to 80% (2017).

Risk management

Significant risk-related developments in the first quarter of 2017

The HYPO NOE Group's liquidity situation remains stable. A broad funding portfolio and sufficient assets eligible as collateral for tenders and GC Pooling refinancing transactions are available. In the first quarter of 2017, the HYPO NOE Group completed a CHF-denominated senior unsecured bond issue, as well as a EUR 500m benchmark covered bond issue from the public sector cover pool. Deposits have increased steadily and remain high. The liquidity coverage ratio (LCR) was well above 100% in the period under review, and the long-term forecast, which is produced regularly, shows that the Group will remain in compliance with the statutory requirements. Follow-up refinancing has already been secured for the majority of the substantial repayments of state-guaranteed bonds that fall due in the second and third quarters of 2017, so there is no longer any significant additional liquidity risk associated with these positions.

Owing to the HYPO NOE Group's strategic focus and business model, public finance is the largest line of business, so low-risk loans make up a large proportion of the lending portfolio. As a result, the Group's NPL ratio is low, at just under 2%.

Risk management processes focus primarily on the Group's remaining exposures (almost exclusively government bonds) in countries on Europe's extended periphery; these exposures fell year on year. Developments in those countries are being monitored closely. In spite of clear indications of easing in economic fundamentals, and improvements in certain local banking and real estate sectors, focus is increasingly turning to political risks such as new elections and rising populism. Heightened geopolitical tensions and the potential implications of Britain's eventual exit from the EU on the HYPO NOE Group's overall portfolio are also being monitored.

In the opening quarter of 2017, particular attention was paid to continuing implementation of integrated financial architecture in order to meet the requirements of IFRS 9 and those for regulatory reporting by 2018.

Additionally, as part of the preparations for the merger scheduled for the end of the third quarter of 2017, work began on harmonising methodologies, unifying risk reporting processes and adapting limit management systems and risk documentation. Regular simulations of possible impacts on risk-bearing capacity in Pillar II are also being carried out.

HYPO NOE Gruppe Bank AG expects the FMA to issue a notice in the second quarter of 2017 determining the Supervisory Review and Evaluation Process (SREP) ratio; this notice will set out the new minimum capital requirements in Pillar II. The procedure used to date suggests that the Bank's capitalisation is sufficient to meet the new requirement.

The Group also began implementing regular supervisory requirements, including completion of the SREP and minimum requirement for own funds and eligible liabilities (MREL) questionnaires for 2016, as well as reviewing the restructuring plan for the Bank and all material subsidiaries pursuant to the *Bundesgesetz über die Sanierung und Abwicklung von Banken* (Federal Act on the Recovery and Resolution of Banks).

In order to meet the additional reporting obligations under the Basel III framework and those arising from future measures (currently referred to as Basel IV) in good time, the Group regularly examines the new requirements, assesses whether there is a need to implement them and takes appropriate action. The HYPO NOE Group also voluntarily participates in the OeNB's half-yearly surveys (quantitative impact studies or QISs) on Basel III monitoring.

Group outlook for 2017

Market outlook

The tug-of-war between an environment shaped by political uncertainty and geopolitical risks on the one hand, and solid economic growth on the other seems likely to persist. However, there is good reason to hope that political risk in the eurozone will decline following the key French elections. Markets interpreted the result of the run-off for the presidency as a pro-European vote. French voters will go back to the ballot box at the start of June for parliamentary elections. Provided that current geopolitical tensions do not escalate, and the major trading nations do not implement protectionist measures that place tangible restrictions on international trade, a bright economic climate can be expected. Although it can be assumed that economic growth will not reach the level initially hoped for following Donald Trump's election as US President, or that priced in by the markets, the American economy is still likely to make a solid contribution to global economic performance, with growth of 2-2.5%. The recovery in the eurozone is becoming more broad-based. This is reflected in the multi-year highs in business and consumer confidence indicators, and underlined by the fact that the recovery has now reached all euro area member states. In spite of moderate headwinds from increased inflation, private consumption will continue to be an important growth driver in future. The steadily improving labour market, in the shape of a continuing fall in unemployment, is evidence of this. Private households, government spending and business investment will all contribute to the increase in economic output. Current figures suggest that eurozone growth of between 1.5% and 1.7% can realistically be expected in 2017. Although growth is strong and inflation higher, any rise in market interest rates in the foreseeable future will probably be modest. This is primarily due to structural factors, in tandem with the regulatory frameworks for banks and insurers and the effects of central banks' expansive monetary policies.

After growing by 1.5% in 2016, Austria's economy is set to pick up steam: the WIFO sees growth reaching 2.0% this year and 1.8% in 2018. Domestic demand remains strong and exports are again making a bigger contribution to growth. Unemployment is falling and the economic upturn has now fed into the labour market, as reflected in an appreciable rise in the number of full-time jobs. The budget deficit fell to 1.1% thanks to the latest GDP revision. Due to the most recent tax reform, some spending will not be offset by government revenue, which could put pressure on the budget in the medium term. Thanks to the resolution of the Heta situation in 2016, it can be assumed that government debt will fall somewhat in the medium term (target: 77.5% by 2019), and that the massive contingent liabilities of the State of Carinthia will be reduced with immediate effect. There is a clear trend towards debt reduction by the Austrian state governments, with aggregate debt including guarantees down by almost 10% since 2014. 43% of Lower Austria's guarantees are attributable to the State's liabilities in connection with subsidised home loans sold over the past few years. As at year-end 2015, 38% or EUR 3.96bn was accounted for by State-backed bonds issued by HYPO NOE, the majority of which will mature by September 2017. According to the latest available forecasts, most of the countries in the HYPO NOE Group's extended core market – with the exception of Germany – will again record growth well above the EU average in 2017.

Business outlook

The HYPO NOE Group made a good start to 2017 and succeeded in fully offsetting expenses related to regulatory requirements in the first few months of the year. The quarterly results include expenses for the contributions to the resolution fund and the European deposit insurance fund, as well as the full-year value of the additional financial stability contribution, which is spread across four years (EUR 15m in total). Profit for the first quarter of 2017 was EUR 0.6m.

Stable customer relationships are vital to the Group's success. We remain committed to our strategy of concentrating on our home market whilst cautiously diversifying by means of exposures in our extended core market. One of our core competences in this respect is our close customer relationships, which we actively seek so as to identify attractive business opportunities, and to minimise default risk by performing a comprehensive assessment of our clients and regional markets. Services for public-sector clients and the equally low-risk housing development sector form a significant part of the HYPO NOE Group's operations. The geographical focus of our activities is always on Lower Austria and Vienna, where our branches give retail and corporate customers points of contact with the expertise to deal with all of their financial concerns.

Advances in digitalisation are also having an impact on the HYPO NOE Group’s business model and processes. This has resulted in improved customer communications, process automation and corresponding efficiency gains. Following on from the successful implementation of the HYPO NOE TAN app in the first quarter, customers will also have access to a new electronic banking platform and a new app with additional payment functions. New functions will also be added to the HYPO NOE mobile banking app.

In the Gruppe Bank segment, most of the new business budgeted for is likely to be classed as investment grade. Foreign exposures will mainly relate to real estate and structured corporate finance, and will be consistent with the Group’s risk policies in terms of the regional markets, limits and customer categories concerned, and constantly monitored. The Group aims to further expand its highly successful corporate investment services business, thereby strengthening the refinancing mix.

The Landesbank segment is keeping up its drive to acquire new customers, as reflected in additional lending. Landesbank is also aiming to capitalise on its broad product range and its ability to offer sophisticated bespoke solutions to drive service business growth.

Significant progress has been made on preparing for the merger of HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG since the Supervisory Board passed the corresponding resolution in June 2016. The legal merger is scheduled to take place in September 2017 on the basis of the closing financial statements of the predecessor company (HYPO NOE Landesbank AG) for the year ended 31 December 2016. The main goal of the merger is to reintegrate the retail and residential construction businesses into HYPO NOE Gruppe Bank AG, the core bank for the State of Lower Austria. This will enable the Group to leverage operational synergies and boost efficiency.

An important component of this year’s funding programme was concluded in March 2017 with the issue of a benchmark covered bond from the public sector cover pool; the Bank also completed a number of other placements. The HYPO NOE Group has sufficient liquidity to repay the bonds backed by the State of Lower Austria that fall due this autumn.

Past efforts, coupled with a well thought-out business model and careful planning, will lay the groundwork for successful customer relationships based on mutual trust. The Group has given itself firm foundations, which it will continue to strengthen in the interests of its customers, owner and workforce.

Events after the reporting period

There have been no material events since the end of the reporting period.

St. Pölten, 15 May 2017
The Management Board

Peter Harold
Chairman of the Management Board

Udo Birkner
Member of the Management Board
(from 1 Jan. 2017)

Wolfgang Viehauser
Member of the Management Board