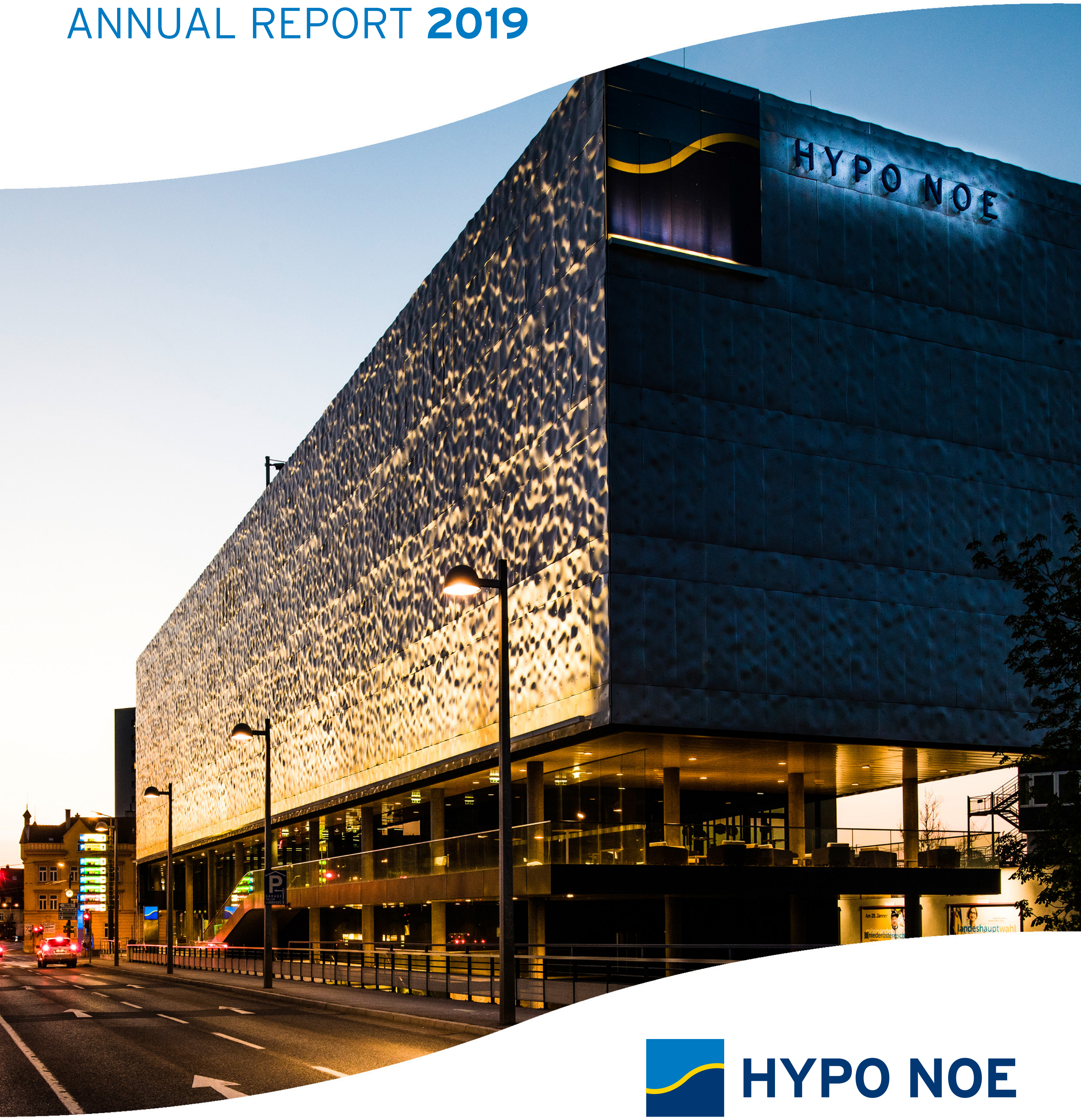
ANNUAL REPORT **2019**



HYPO NOE

GROUP FINANCIAL HIGHLIGHTS

EUR '000	2019	2018
Consolidated statement of comprehensive income		
Net interest income	117,910	111,933
Impairment losses/gains on financial assets – IFRS 9 ECL	-9,514	10,590
Profit before tax	**37,692**	**47,992**
Income tax expense	-7,291	-11,548
Profit for the year	**30,401**	**36,444**
Consolidated statement of financial position		
Total assets	14,571,762	14,060,065
Financial assets – AC	12,417,093	11,640,675
Financial liabilities – AC	12,522,091	12,106,624
Equity (incl. non-controlling interests)	683,502	663,398
Consolidated own funds and own funds requirement		
Eligible Tier 1 capital	666,345	646,153
Total eligible capital	666,345	646,153
Capital requirement (Pillar I)	277,828	246,527
Excess equity	388,517	399,626
Total risk exposure amount in accordance with Art. 92(3) CRR	3,472,853	3,081,591
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR (= fully loaded)	19.19%	20.97%
Total capital ratio in accordance with Art. 92(2)(c) CRR (= fully loaded)	19.19%	20.97%
Operational information		
Number of employees at year-end	742	789
Number of branches	27	27
Selected payments, levies and other public sector items		
Financial stability contribution (bank tax)	-8,517	-8,724
Prepaid income tax	-25,027	-2,835
Current income tax	-7,646	-8,385
Deferred income tax	355	-3,163
Social security contributions and other pay-related contributions	-15,037	-12,046
Group financial highlights[1]		
Return on equity before tax	5.60%	7.01%
Return on equity after tax	4.51%	5.33%
Return on assets	0.21%	0.26%
Cost/income ratio	59.51%	66.96%
NPL ratio	0.96%	1.42%
LCR	157.14%	198.27%

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

FOREWORD BY THE SUPERVISORY BOARD

2019 was an extremely successful year for the HYPO NOE Group and its employees despite the current challenging economic climate. The Group again recorded a strong profit in the face of interest rates at historic lows. Important contributory factors were the successful continuation of the efficiency and cost reduction programmes, the initiative aimed at honing the Group's profile and strategy, and a clarification of the sales strategy.

Building on the Zukunftsfit 2020 efficiency programme launched in 2016, the Fokus 25 organisational development process kicked off last year. This is aimed at refining the Group's strategy, tightening the focus on its core business, reinforcing the positive and proactive culture in line with its values – flexible, customer-driven and reliable – and enhancing employees' customer focus.

In 2019, these measures were already contributing to the Group's improved competitiveness, the pick-up in new business and – together with process optimisation and cost savings – increased profitability and the maintenance of strong capitalisation. The Group also achieved further improvements in portfolio quality. This meant that the HYPO NOE Group was able to concentrate on its core mission of lending to customers on its Lower Austria/Vienna home market whilst exploiting market opportunities without compromising its stability and efficiency – an achievement rewarded by rating agency Standard & Poor's with a solid single A rating and positive outlook.

In 2019 the Supervisory Board was involved in all decisions of fundamental importance, supervised the Management Board in accordance with the legal requirements, and advised it on the running of the Group. Through its plenary and committee meetings, and reports from the Management Board, the Supervisory Board was able to obtain a timely and comprehensive picture of the relevant economic and financial developments affecting the HYPO NOE Group.

The rigorous implementation and further evolution of the Bank's strategy were instrumental in the Group's ability to post another good performance in 2019 and build on robust and resilient foundations going forward. Due to its long-term perspective, the role of the State of Lower Austria as a stable and reliable sole owner is a mainstay of the Group's continued positive performance, whilst the state itself profits from the consistent dividend income and value growth that this brings.

Last year's strong showing is a tribute to the outstanding effort put in by the workforce, and the Supervisory Board would like to thank all employees and the Management Board for their contribution.

Günther Ofner
Chairman of the Supervisory Board

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

Part I: BANK & LAND (MAGAZINE SUPPLEMENT TO THE ANNUAL REPORT)

Part II: HYPO NOE GROUP ANNUAL REPORT

Bank & Land

2019 HYPO NOE Group
Annual Report magazine supplement

Contents

The entire annual report is available for download here:

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

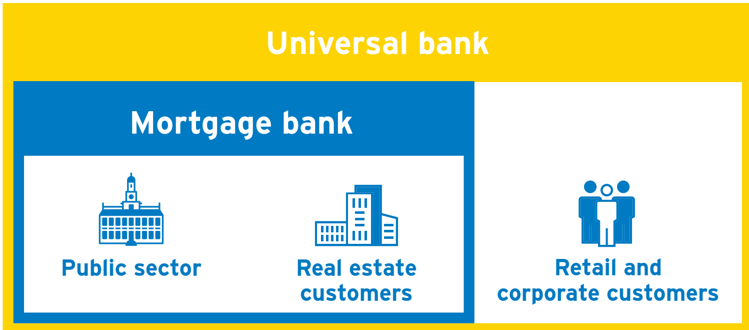
FACTS AND FIGURES

HYPO NOE at a glance

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

Low-risk business model – tried and tested since 1888

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



HYPO NOE's strategy

ORGANIC GROWTH

- Focus on core business
- Emphasis on Austria and Germany

DIGITALISATION

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

PROFITABILITY

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

[1] By total assets (2018 consolidated financial statements) and date of establishment

PERFORMANCE METRICS

0.96%
NPL ratio

3.1
EUR bn RWA*

19.19%
CET1 ratio

A positive
S&P issuer credit rating

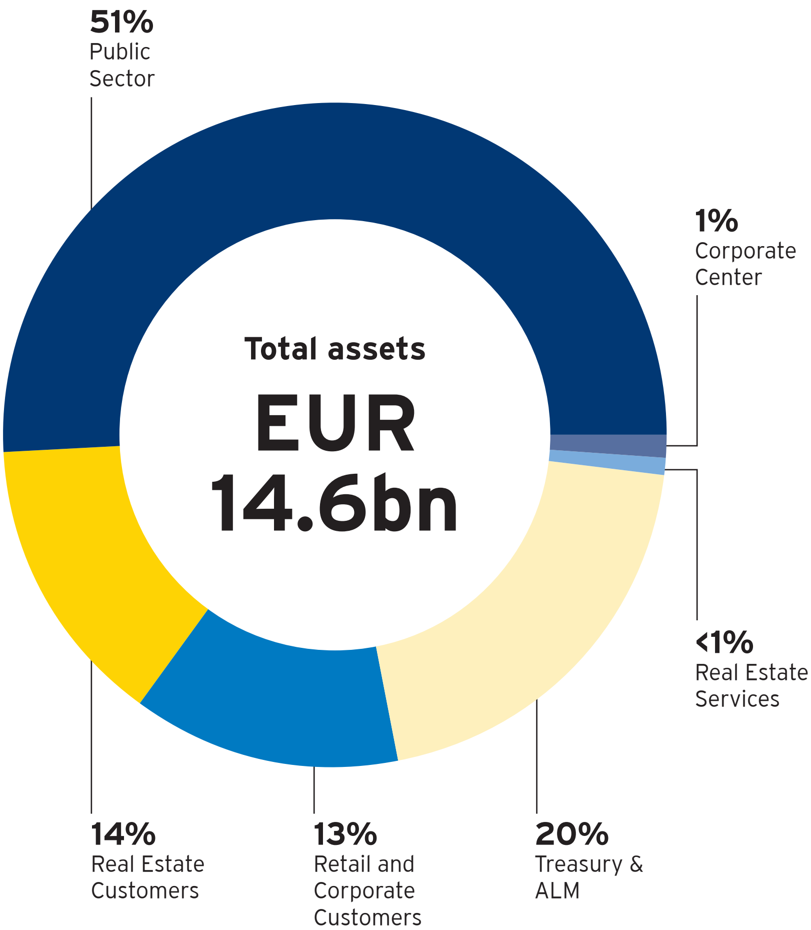
Aa1
Moody's covered bond ratings

Prime
ISS ESG sustainability

* Risk-weighted exposure to credit risk

The HYPO NOE Group's business segments

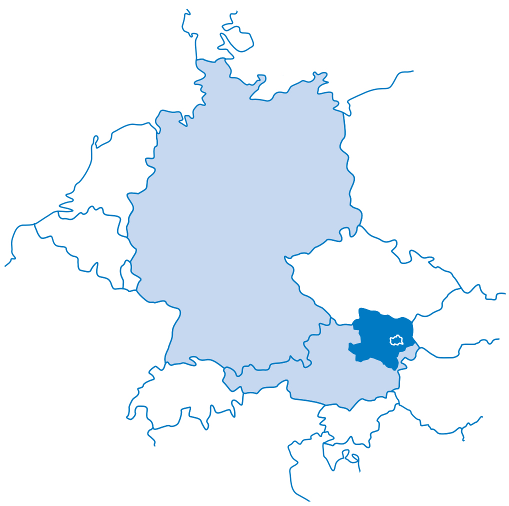
Assets as at 31 December 2019



A strong partner in a robust regional economy

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

- Home market: Lower Austria and Vienna
- Core market: Austria and Germany
- Also targeted: selected EU markets



Focus on the future

JANUARY TO DECEMBER 2019

Fokus 25: playing to our strengths

Under the Fokus 25 initiative, management and employees have joined forces to strengthen HYPO NOE Landesbank. The Bank's common values and strategic alignment have already been arrived at. The Bank is focusing strongly on playing to its strengths, namely financing public infrastructure, housing construction and corporates. During the period up to 2025, its customer service quality and internal processes will be further enhanced, and digital innovation driven forward. This should enable the Lower Austrian state bank to draw on a clear business model when confronting the challenges of the future.

MARCH 2019

HYPO NOE Landesbank delivering affordable housing

Working in tandem with the European Investment Bank (EIB), the State of Lower Austria has created its own funding model for affordable housing. The EIB has provided HYPO NOE Landesbank with an initial EUR 125m in refinancing on attractive terms, which is reflected in cheaper loans for non-profit housing construction. The state expects to be able to save future tenants of new developments up to EUR 200 per year in rent in this way.

Training award: Lower Austria Economic Chamber President Sonja Zwazl (right) presents Management Board member Udo Birkner and HR team leader Petra Fritscher with the 2019 Trainer Trophy.

APRIL 2019

Accolade for training

As one of the main employers in the region, HYPO NOE Landesbank attaches particular importance to training for young people. In April, the Lower Austria Economic Chamber recognised this by awarding the 2019 Trainer Trophy to the Bank. The award goes to the companies that have successfully trained the largest number of apprentices, relative to their overall headcounts, over the past decade.

Ex-banker and beekeeper Georg Fink (far left) is the "father" of the HYPO NOE bees.

MAY 2019

The bees have landed

Some 150,000 new "colleagues" have been in residence on the roof of the Group headquarters in St. Pölten since mid-May, and are already hard at work making honey. As part of the Wir für Bienen ("We for Bees") initiative, HYPO NOE Landesbank has adopted five populations to help save this endangered species.

JULY 2019

Over 1,300 guests in Grafenegg

HYPO NOE Landesbank again thanked its customers, associates and friends for their loyalty by inviting them to an atmospheric summer night concert. Billed as "All you need is brass", the event treated an invited audience of about 1,300 to a rousing open-air concert at Grafenegg.

Brass quintet Canadian Brass performed Beatles classics such as "Yesterday" and "All You Need is Love" on the Wolkenturm stage.

Musical thank you: the summer night concert at Grafenegg.

SEPTEMBER 2019

Successful benchmark bond issue

In September HYPO NOE Landesbank succeeded in placing a EUR 500m public sector covered bond issue. The instrument has a maturity of seven years and a coupon of 0.01%. The good response to the offer meant that most of the Bank's refinancing needs in 2019 (amounting to over EUR 1bn due to the large amount of new business won) were met.

Profitable and well capitalised

STRONG PERFORMANCE. Management Board Member Markets and Speaker Wolfgang Viehauser and Management Board Member Finance, Risk & Operations Udo Birkner on HYPO NOE Landesbank's view of itself, its performance in 2019, and the new Fokus 25 organisational development process.

There's no let-up in the challenges facing banks. How happy are you with financial 2019?
WOLFGANG VIEHAUSER: In 2019 we managed to keep up the momentum from the previous year, and we again grew new business strongly, to EUR 1.8bn, despite initial signs of a gloomier economic picture. As a reliable banking partner for private individuals and businesses across the region, we expect to set the tone in our markets. It's particularly encouraging that we have actually exceeded our target of continuing to drive growth in our core earnings. Operating profit improved further, and we posted sharp increases in both net interest income, and net fee and commission income.

UDO BIRKNER: We have shrunk our cost base significantly in recent years. The fact that this reduction is sustainable is demonstrated by the further fall in administrative expenses in 2019, which would normally set the scene for strong operating performance. We are becoming more profitable without deviating from our self-imposed guidelines. This is particularly striking in the case of our risk and capital profile. We again pared back the NPL ratio, to 0.96%, while the Common Equity Tier 1 (CET1) ratio of 19.19% was once more well above the European average.

Last year, you launched an organisational development process billed as Fokus 25. Has this yielded any results yet?
VIEHAUSER: Yes, we've already made a lot of progress. We set up Fokus 25 because we believe that a more precise strategy and a clear profile is the right response to the challenges of today and tomorrow. Building on our strong position on our home market, as a stable state bank and specialist mortgage bank, we are aiming for organic growth in our core business – serving the public sector as well as real estate and corporate customers. We are looking to record most of this growth in Austria, namely in Lower Austria and Vienna, and elsewhere, as well as in Germany. We are also selectively accepting business in other markets in the European Union. Our people's active engagement with Fokus 25 was incredible. A recent opinion survey was impressive proof that employees are right behind the new strategy.

Successful Management Board duo: Wolfgang Viehauser (left) and Udo Birkner run HYPO NOE Landesbank.

In the past few years, the HYPO NOE Group has made itself fit for the future. How satisfied are you with the outcome of the Zukunftsfit 2020 initiative?
BIRKNER: The best way to answer that is to take a look in the rear view mirror. In the course of Zukunftsfit 2020 we systematically streamlined structures and processes, and optimised our business model. Milestones included the merger into a single bank, the implementation of a new organisational structure, and the successful restructuring of the real estate services business. A raft of measures have enabled us to achieve big gains in efficiency across the Group, as is shown by the decline in the cost/income ratio (CIR). All in all, we are more profitable and better capitalised today, and the quality of the assets we hold is higher. We will be confronting the challenges ahead from a position of strength.

Digitalisation is a key element in the Group strategy. What does that mean in practice?
VIEHAUSER: We have a clear strategy, with two main thrusts. As regards our core products, we are committed to in-house digital developments and a best-in-class approach. Here, as a mortgage bank, we give pride of place to real estate finance, and we are currently working to digitalise the entire lending process. In future, we would also like to build additional components into the process, such as the handling of subsidy payments. As regards add-on products, we are forging partnerships with leading sellers, to ensure that we are always capable of offering our customers the best available solutions. For example, we are doing this in the area of consumer credit, which we are offering in tandem with TeamBank Österreich. This approach also brings us closer to achieving our objective of boosting net fee and commission income. »

» Are branches still needed given the changes that have taken place in consumer behaviour?
VIEHAUSER: Definitely. With lending and retirement saving, at the end of the day it all comes down to personal advice – and digital tools are no replacement for that. That's why we developed a new branch concept, precisely tailored to this reality, last year. In combination with digitalisation and the automation of standard processes, the new branch concept gives our relationship managers time and space to provide quality personal service. We pay the necessary attention to customers to help them take life decisions in a pleasant atmosphere. Last year, we refurbished the Hütteldorf branch in this way, and we have also opened a new outlet based on the same design at St. Pölten University Hospital.

"A raft of measures have enabled us to achieve a big boost in efficiency across the Group."

Udo Birkner

Management Board Member Finance, Risk & Operations Udo Birkner is confident that the Bank's strong emphasis on sustainability will give it a competitive edge.

Where do you see the main challenges for banks? Are you managing to raise interest income in spite of the ECB's low-interest-rate policy?
BIRKNER: Besides digitalisation, the key trends are undoubtedly regulation and sustainability. Persistently low interest rates weigh on our main source of income: interest income. At the same time, the cost of regulatory compliance is rising. We have to live with these strains. The fact that we nevertheless grew net interest income once again is down to a package of measures affecting both the assets and liabilities sides of the balance sheet. On the one hand, when taking decisions on new lending we look at the potential contribution from the transaction, but without compromising our conservative risk profile. On the other, our sound reputation on the capital markets helps us refinance our business on attractive terms. Meanwhile, we are extending our partnerships with the development banks.

You picked out sustainability as a key trend. How are you responding to this issue?
BIRKNER: As a publicly owned bank, we have made an honest and serious commitment to sustainability. Our portfolio has always strongly reflected sustainability considerations due to the high proportion of social infrastructure projects. And years ago we made a commitment to comply with strict ethical guidelines and business principles. These ensure that we do not countenance any lending that looks questionable from a social or environmental point of view. In both our lending and our refinancing operations, we wish to implant sustainability still more strongly in the Group's DNA – if only because we are convinced that this will give us a long-term competitive advantage.

Management Board Member Markets and Speaker Wolfgang Viehauser is proud of HYPO NOE Landesbank's achievement in posting marked increases in net interest, and net fee and commission income in 2019.

"With lending and retirement saving, at the end of the day it all comes down to personal advice."

Wolfgang Viehauser

What effects will the European Commission's Green Deal have on your business?
BIRKNER: In future, the banking sector will look at the sustainability aspect still more closely when taking lending decisions. The aim is to determine whether a transaction is sustainable and, if so, what impact it has on the basis of clear criteria. Sustainability criteria will also be incorporated even more strongly in our risk management processes, permitting a more comprehensive assessment of social and environmental risks. As a state bank, we will certainly be steadily increasing our commitment to sustainable finance in the next few years.

The environment you are operating in is constantly changing. One thing will stay the same, though: sole ownership by the State of Lower Austria. What role does that play in your business development?
VIEHAUSER: Our sole owner, the State of Lower Austria, takes the long view, and this enables us to implement our strategy consistently. Because of this, the State's ownership has a very positive impact on the opportunities open to the Bank. It is in our owner's interests for us to be a strong bank that is capable of fulfilling its mission in and on behalf of the region as effectively as possible, and it assists us in this by maintaining a restrained dividend policy. The lion's share of the profits made remains with the Bank, reinforces its capital base and helps to underpin its creditworthiness. This gives us the flexibility we need to pursue business opportunities. Being owned by the State of Lower Austria also means that we are an all-Austrian bank – by no means a matter of course in today's banking world.

Let's venture a look at the future. Where do you see HYPO NOE Landesbank in five years?
VIEHAUSER: As a reliable commercial bank, and as THE Austrian mortgage bank – the number one in housing construction and infrastructure.

BIRKNER: As a stable state bank that is still more profitable, strongly capitalised and risk averse – and well set for the next 130 years.

HYPO NOE Landesbank is on course for a solid future thanks to its low-risk business model.

Making good progress despite headwinds

SUCCESSFUL BUSINESS MODEL. The ECB's low-interest-rate stance remains in place, and this is making life hard for the banks. In spite of this, HYPO NOE Landesbank has again recorded solid earnings.

2019 was anything but easy for the banks. The European Central Bank kept its low-interest-rate policy in place, posing tough tests for the industry. Low rates make it harder for banks to generate interest income, which is vital to their operating profits. A true interest-rate turnaround is nowhere in sight.

Difficult environment – solid performance. Nevertheless, the HYPO NOE Group put in a strong showing, posting a marked improvement in operating performance. Operating profit grew by 4.7% year on year. Particularly encouraging was the fact that core earnings advanced again, with net interest income up by 5.3%, and fee and commission income 15.1% higher.

At the same time, the Group is addressing new tasks; it is pressing ahead with digitalisation while also keeping a close eye on costs. The cost/income ratio decreased from 67.0% in the previous year to 59.5% in 2019.

Feet on the ground. This solid performance stems from the low-risk business model that HYPO NOE Landesbank has been true to since its foundation in 1888. It is backed up by a dependable sole owner in the shape of the State of Lower Austria. With a CET1 ratio of 19.19%, the Bank is one of the best-capitalised lenders in Austria and Europe.

A reliable partner. All of this is also reflected in the Bank's solid credit ratings. Standard & Poor's has never rated it at below single A.

HYPO NOE Landesbank is a sound and reliable partner – and that is precisely what counts in troubled economic times.

FACTS AND FIGURES ON REFINANCING AT HYPO NOE LANDESBANK

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

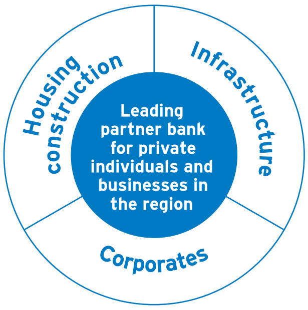
INFORMATION

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

Concentrating on essentials with Fokus 25

The HYPO NOE Group launched the Fokus 25 organisational development process at the end of 2018 in a bid to move ahead as a stronger business with a clear view of itself and more pronounced positioning.

CORE COMPETENCIES



MISSION

We are an attractive and stable employer. We are reliable, customer-driven, flexible and collaborative. In this way, we contribute to quality of life, stability, and economic and social development in our markets.

MARKETS

Home market: Lower Austria and Vienna
Core market: Austria and Germany
Extended core market (selectively targeted): EU

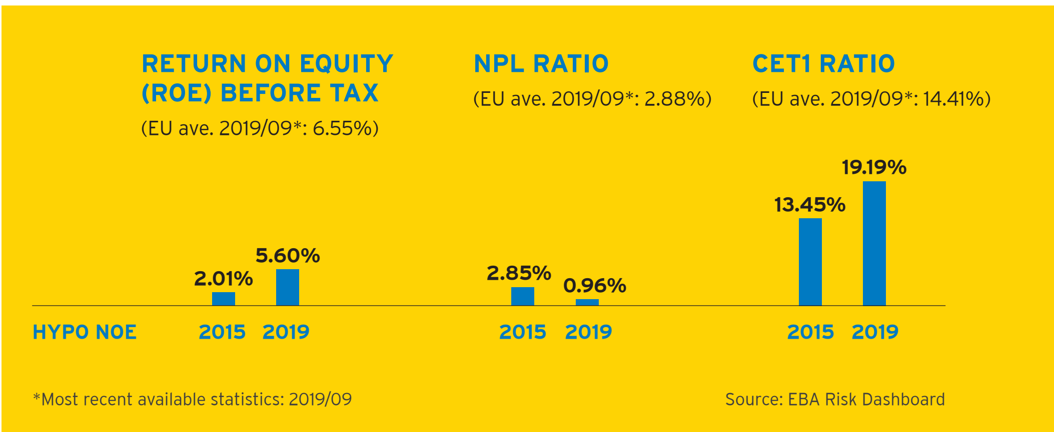
It defined the financing of infrastructure, housing construction and corporates as its core competencies. The Group would like to continue to expand in these areas, and hopes to figure as a leading finance partner beyond its home market. In order to continue providing the best available solutions, the Group is entering into partnerships to offer add-on services. The main emphasis of Fokus 25 is on quality of customer advice, as well as digital innovation. Particularly in its core competencies, the Bank is developing best-in-class solutions.

Strongly placed thanks to Zukunftsfit 2020

"The aim of Zukunftsfit 2020 was to align the Bank for strong capitalisation, low risk and improved profitability. A look back at the past shows that we have fully succeeded in this."

Udo Birkner,
Management Board Member
Finance, Risk & Operations

The HYPO NOE Group's Zukunftsfit 2020 (Fit for the Future 2020) efficiency programme is driving leaner structures and processes, optimising its business model, and focusing investment on its digital infrastructure. To remain well prepared for future challenges, HYPO NOE Landesbank keeps a particularly close watch on its asset quality, capitalisation and profitability. For example, administrative expenses tumbled from EUR 129.1m at the start of 2015 to EUR 110.1m in 2019, a drop of 14.8%. The programme is bearing fruit, as shown by an EU-wide comparison.



"Customers must benefit from it"

BANK 4.0. How will digitalisation affect banks' products and services, and internal processes? Matthias Förster, Head of Sales Strategy, and Klaus Tauber, Head of Operations, provide some answers.

What does HYPO NOE Landesbank's digitalisation strategy mean for your department?
MATTHIAS FÖRSTER: For us, it holds the promise of new sales channels, and efficient, user-friendly tools and processes. The new products and services are being developed in consultation with customers, sales staff and in-house departments.

KLAUS TAUBER: As far as the internal processes are concerned, this is mostly a matter of increasing efficiency and thus cutting costs. We achieve this by standardising as many processes as possible and automating them wherever we can.

Where do you see the biggest challenges arising?
FÖRSTER: It mostly comes down to breaking up and replacing rigid systems and ingrained processes. Of course, that's unsettling.

TAUBER: The colleagues who are tasked with driving forward the digitalisation of our business processes are also tied up in taxing day-to-day operations. It's often difficult for them to free up enough time to prepare for the future.

What's been implemented already, and what's still in the pipeline?
FÖRSTER: On the home loans side, we are working on a "digital" mortgage. This goes a lot further than the usual loan calculator. Customers can use a secure online path to exchange their data with the mortgage advisor and receive a binding offer. The digital mortgage is one of the building blocks of the housing-related online platform that we are currently working on.

TAUBER: Some robotic processes are already replacing manual processing. For instance, the report to the credit protection association when

Klaus Tauber (left) and Matthias Förster see digitalisation as an opportunity.

a mortgage is granted has now been automated. Particularly in our core real estate and infrastructure financing businesses, and our services for corporate customers, we are putting a major effort into devising quick, simple, quality solutions. Customers must see a real benefit. At the same time, the internal processes are being simplified, and customers will ultimately benefit from this, too.

How is digitalisation changing the Bank?
FÖRSTER: Customers, Sales and IT are collaborating more closely on product development. People from different departments are working on new ideas, products and processes. As regards project management, we are relying on agile – which is to say flexible and self-organising – teams. Many fintechs in the banking world are showing how that is done, and our experience of this approach has been positive, too. But in-service training courses are a must here. Because customers no longer necessarily visit our branches, but communicate with the Bank online or by phone, the relationship managers also need to become more mobile and flexible.

TAUBER: Employees' expertise will become ever more crucial. But they must now also learn to pass on their accumulated know-how to the IT developers in such a way that the latter can create automated solutions. The change in roles from being the user of your own knowledge to that of a teacher calls for appropriate courses.

What are you aiming for with digitalisation?
FÖRSTER: In times of negative interest rates and online banks, there is no room for time-consuming routine activities. Because of this, the top digitalisation priority for the relationship managers will be equipping them with user-friendly customer advice tools.

TAUBER: Digitalisation and automation are not ends in themselves. Both must bring value added for customers – notably convenience – and relieve employees of administrative work. ■

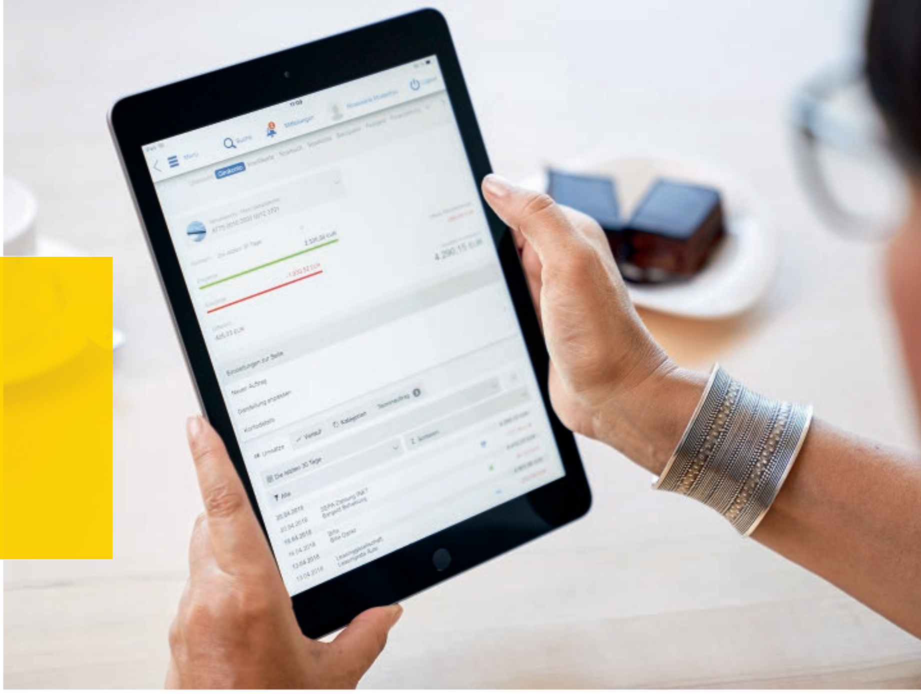
Inviting and friendly: the new branch in Vienna's Hütteldorf district.

Branches: new atmosphere and top-class service

FACELIFT. The Hütteldorf outlet was the second HYPO NOE Landesbank branch to reopen with a new interior design that creates the right setting for quality customer service.

A smartphone is all most people need to check their account balance. But when it comes to life decisions like a new home or a pension plan, people need enough time and the right surroundings. This is why HYPO NOE Landesbank has introduced a new interior design concept, featuring warm, earthy tones and a lot of wood, for its branches. Hütteldorf became the second remodelled branch to open, after Stockerau, in September 2019.

"Outstanding customer focus". The quality of the advice provided at its branches is shown by the awards that HYPO NOE Landesbank keeps winning. The bank for Lower Austria won the "Best On-Site Customer Advice" category in the 2019 Österreichische Gesellschaft für Verbraucherstudien (Austrian Society for Consumer Studies) Service Award; it was among 216 companies from a wide variety of industries that were tested. At the 13th Recommender Gala held by the Finanz-Marketing Verband Österreich (Austrian Financial Marketing Association), HYPO NOE Landesbank was honoured for its "outstanding customer focus". "Last year we were named 'Most improved bank of the year'. The fact that we have won another accolade this year is a strong endorsement of our actions and strategy," said Management Board Member Markets and Speaker Wolfgang Viehauser. ■



A number of smart digital offerings are making life easier for bank customers.

Safety net

DIGITAL SERVICES. Besides its personal service, HYPO NOE Landesbank has won plaudits for its wide range of online offerings, which it is constantly expanding.

Payment slips were yesterday. The current wave of digitalisation is one of the major challenges facing the financial sector – and hence also HYPO NOE Landesbank. Most customers already take care of everyday banking transactions like transfers online. The Lower Austrian state bank is constantly expanding its online and mobile services for retail and corporate customers. Sophisticated technologies ensure that data security does not fall by the wayside.

All-round security. For example, the latest European security standards for online banking require still more watertight login and authorisation procedures. The Bank responded by launching its new HYPO NOE ID app in May 2019. Since late 2019, our corporate customers have had a new online banking tool at their disposal. This gives them access to global payments services – likewise with maximum security levels. Mobile transactions are possible. Another advantag is the fact that the service is multibanking-capable.

Switching current accounts made easy. Previously, if a customer wanted to have their current account with a different bank, this quickly became complicated, because of direct debit orders, for instance. Since the end of 2019, it has been possible to switch or open current accounts digitally in minutes. Direct debit mandates are accepted automatically and can be signed digitally. This has been made possible by a cooperation agreement with fintech group finleap connect GmbH.

Bringing the bank to the customer. New services are also facilitating customer advice. In order to save customers in Lower Austria and Vienna the trip to a branch, the relationship managers have been given mobile devices that they can take to the desired location.

Face-to-face digital customer service. A new digital advice route has been implemented as part of our insurance consulting. The customer and their advisor work through the digital advice route together and receive a quotation at once. The customer can then sign the contract electronically on the advisor's mobile device, and receives a copy by e-mail shortly afterwards. This approach is simple and user-friendly, and is also good for the environment because of the mountain of paper it saves.

Top marks for sustainability

TOP OF THE CLASS. HYPO NOE Landesbank's sustainability activities are bearing fruit, as seen in the rankings published by various sustainability rating agencies. Prime status from ISS ESG confirms the Bank's standing as one of the best in the business. New this year: the World Wide Fund For Nature (WWF) rating.

ISS ESG

ISS ESG (formerly oekom research) awarded HYPO NOE Landesbank Prime status. This reflects the Bank's outstanding commitment to fulfilling its environmental and social responsibilities.

RFU

Austrian sustainability agency rfu renewed HYPO NOE Landesbank's rfu qualified status with a ba rating. Only the best businesses are awarded this status and subsequently included by rfu in its sustainable investment guidance.

IMUG

Respected sustainability rating agency imug revised both the Bank's sustainability score and the rating for its mortgage bonds upwards, by one notch each.

Corporate ESG Performance

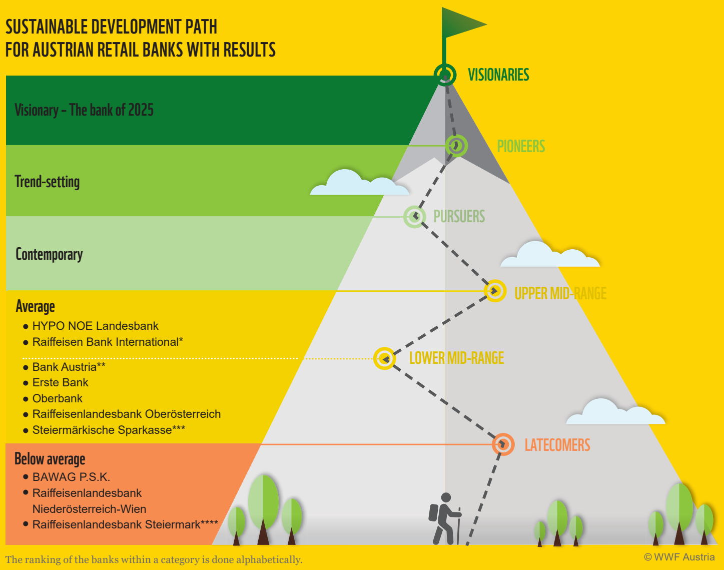
RATED BY ISS ESG

Prime

WWF: And the winner is ... HYPO NOE Landesbank

The World Wide Fund For Nature (WWF) rated the ten largest Austrian retail banks for the first time in 2019. And HYPO NOE Landesbank took first place. "These fantastic ratings are a great incentive for us to continue doing everything we can to pursue sustainability goals in all of our core areas of business," confirmed Claudia Mikes, Head of the Investor Relations and Sustainability team.

Plaudits from Greenpeace. A recent report published by Greenpeace on climate protection measures in the financial sector including business travel and fleet management praised HYPO NOE Landesbank for its partially electrified fleet of company vehicles, e-charging points at its headquarters and the availability of rail cards for employees. It also highlighted the use of telephone conferences, which have eliminated countless business trips between the Bank's St. Pölten and Vienna offices.



The ranking of the banks within a category is done alphabetically.

** Raiffeisen Bank International is not ranked in the sectors saving, private loans and mortgages.*

*** Bank Austria's ranking is based solely on publicly available information.*

**** Since Steiermärkische Sparkasse is within the consolidation scope of Erste Group, the ratings of Erste Bank have been applied in relevant areas.*

***** Raiffeisenlandesbank Steiermark's rating is based solely on publicly available information.*

WWF

The WWF compiled a rating of the ten largest Austrian retail banks for the first time in 2019. HYPO NOE Landesbank was delighted to secure first place. These excellent results will encourage HYPO NOE Landesbank to carry on putting sustainability at the heart of our core operations and to redouble our efforts in this area in the future.

CO_2 emissions more than halved since 2015

Working together to reduce our environmental footprint

Capsules are a thing of the past: it's no coincidence that the kitchenettes at the HYPO NOE headquarters in both St. Pölten and Vienna are now equipped with coffee machines that use whole beans. This is one of the many ways in which the Sustainability Working Group, launched in January 2019, is bearing fruit. A few times a year, the heads of and experts from the Human Resources, Marketing, Communications, Sales and Facility Management departments, as well as the Sustainability team, get together to work on ways to gradually reduce their ecological footprint. Ongoing initiatives are also discussed and the feasibility of various new ideas is assessed. All employees are also free to submit their own sustainability-related suggestions to a dedicated e-mail address set up specially for the purpose.

Quick implementation. "The interdepartmental composition of the working group, with members representing various specialisms, enables us to swiftly act on and implement ideas and suggestions," said Claudia Mikes, Head of the Investor Relations and Sustainability team. This process led to the replacement of coffee capsules with whole beans, as requested by numerous employees. This measure will enable HYPO NOE Landesbank to save 320kg of plastic waste each year. The 36,000 bottles of mineral water used annually have given way to Soda devices, and jugs of water are now placed on meeting room tables instead. "Austria has some of the best-quality drinking water anywhere in the world," Mikes explained. The changeover to eco-friendly copier paper is also the result of an initiative of the working group, as is the decision in favour of sustainable advertising materials, including cotton tote bags, organic rain ponchos made from corn starch, and organic ballpoint pens.

Bees busy making gifts on the roof of the Group HQ.

Sustainability buzz

Throughout Lower Austria, millions of insects pollinate flowers and crops, helping to secure our day-to-day food supplies. Home to more than 600 different species of wild bees, the state leads the way in the whole of central Europe in terms of bee diversity. Still, the decline in the bee population has been troubling scientists, farmers and environmentalist for many years.

Adopt-a-bee. To protect the threatened insects, the State of Lower Austria set up the Wir für Bienen ("We are Bees") initiative, under which HYPO NOE Landesbank adopted five bee populations. In mid-May, around 150,000 bees moved into their new home on the roof of the St. Pölten headquarters, where they are hard at work producing certified organic honey. The fruits of their labour are very well received by customers. In future, the populations will continue to grow – the queens can lay anything up to 2,000 eggs a day. The HYPO NOE bees are tended by former banker and passionate beekeeper Georg Fink.

Sustainable energy boost for the headquarters in St. Pölten.

Minister Maria Patek presents the certificate to Management Board member Udo Birkner.

HYPO NOE Landesbank is now an official klimaaktiv partner

Energy-efficient building construction at the St. Pölten headquarters, financing public construction projects implemented in compliance with strict environmental regulations, and consultations with a focus on eco-standards: the Lower Austrian state bank's green know-how did not escape the attention of the Federal Ministry of Sustainability and Tourism. In September 2019, Minister Maria Patek presented Management Board member Udo Birkner with the klimaaktiv certificate, officially confirming the Bank's status as partner organisation.

Outstanding dedication. The accolade is only bestowed on companies that demonstrate extraordinary commitment to climate protection. "For us, climate and environmental protection is not just a means to an end – on the contrary, as the bank for the state of Lower Austria we have a responsibility to society which we take extremely seriously. Wherever we can do something, we make sure that we do it, and we also act with a view to honouring our obligations towards future generations," Birkner explained.

Partner status is not the only klimaaktiv award that HYPO NOE Landesbank has received. The St. Pölten headquarters were constructed in accordance with the klimaaktiv building standards, earning the project the klimaaktiv silver standard in 2012.

"Clear ethical guidelines and principles ensure that we only provide loans that are compatible with our sustainability strategy. We recently added coal to the list of exclusion criteria."

Udo Birkner, Management Board Member Finance, Risk & Operations

Continuous reduction in CO_2 emissions

Under the HYPO NOE Group's environment and energy strategy, the previous ISO 50001-certified management system was upgraded to a comprehensive environmental management system that obtained ISO 14001 certification from Quality Austria. The Group cut CO_2 emissions by a further 173 tonnes in 2019 (a 22.2% decrease in emissions on the previous year). CO_2 emissions continue to fall and are now less than half the level reported in 2015.

Help getting a foot on the housing ladder

MAKING A HOME. Affordable apartments for young people are being built in Grossdietmanns in the Upper Waldviertel region. HYPO NOE Landesbank is handling the finance on behalf of the housing association.

Finance for non-profit housing schemes like the one in Grossdietmanns is a cornerstone of the Bank's corporate strategy.

The State of Lower Austria has set up a separate funding scheme, Junges Wohnen, to create affordable housing for people aged up to 35. Building these housing units in the Upper Waldviertel also has the advantage of giving a boost to a regional economy with structural problems. The Gemeinnützige Bau- und Siedlungsgenossenschaft Waldviertel (WAV) housing association plans to complete a new development with 11 apartments, each with about 60m² of living space, in Grossdietmanns (between Weitra and Gmünd) by spring 2020. The land for the project has been provided by the local council. It wants to encourage young residents to stay. Every unit has its own terrace or balcony and a parking space. The communal garden to the south is meant to encourage the future residents to garden and relax together.

Successful search for a partner. When looking for a suitable finance partner, WAV hit on HYPO NOE Landesbank. "We invited a number of banks to bid for the project. HYPO NOE emerged as the best bank because of the terms it offered," explains WAV chief executive Manfred Damberger.

Of a total investment of some EUR 1.6m, about EUR 1.1m is housing subsidies. HYPO NOE Landesbank is providing almost half a million euros, in the form of a mortgage loan. "We are also advising the state and the housing association on the design of the housing subsidies," says housing adviser Thomas Ebner.

Future proof: affordable rents help young people make the transition to independent living.

JUNGES WOHNEN ("HOMES FOR YOUNG PEOPLE")

Aimed specifically at young people, this funding scheme has a number of advantages, but there are conditions, too:

- Maximum age: 35
- Rental only (no option to buy)
- Max. apartment size: 55-60m²
- Max. financing contribution: EUR 4,000
- Low-cost rented apartment
- Close to town centre and with good transport links

An eye on the future. Construction costs have surged in the past few years. At present, these increases are cushioned by cheap finance due to the European Central Bank's low-interest-rate policy. Ebner: "But that won't stay the same forever. It usually takes 30-35 years to pay off a non-profit housing development. We are trying to structure the repayments in such a way that the young tenants will still be able to make them in a few years, and are not threatened by excessive jumps in the costs."

Finance for subsidised housing projects is one of the cornerstones of the Bank's corporate strategy. Ebner: "Due to the strict legislation, non-profit housing like the development in Großdietmanns is well built, energy-efficient and affordable. As a bank, we're glad to be part of that."

"What we particularly appreciate about our collaboration with HYPO NOE Landesbank is the lack of red tape and the speed with which everything is handled."

Manfred Damberger, Chief Executive of WAV

DID YOU KNOW THAT...

...in 2019, HYPO NOE Landesbank provided around EUR 270m for sustainable housing schemes? The lion's share were built in the Bank's Lower Austria/Vienna home market. Lately, the Bank has widened its exposure to Austria as a whole, in particular Styria and Upper Austria.

...in its role as the financier, HYPO NOE Landesbank profits from its partnerships with Austrian housing associations? Long-lasting, dependable collaboration with customers is one of the key factors behind the Bank's success.

...throughout Europe, the Austrian housing association system is regarded as a model of best practice in the creation of affordable housing? Every year, the Austrian Federation of Limited-Profit Housing Associations welcomes international delegations of housing experts who come to find out about the Austrian model.

...an average of about 3,750 new non-profit housing units are built in Lower Austria alone each year? The average rent per square metre of these homes (including service charges and VAT) is about EUR 6.60 – 13% lower than private or commercial rents.

...the construction and renovation of housing association developments is subject to particularly strict environmental standards? With regard to climate action, besides energy-efficient renovation, housing associations are increasingly turning to alternative energy sources.

New centre of learning in Vienna

PUBLIC-PRIVATE PARTNERSHIP. The HYPO NOE Group is playing a central role in the development of the new school campus in the Seestadt and Aspanggründe areas of the capital.

Leading role for HYPO NOE Landesbank: the Bank has overall responsibility for the financing, construction and operation of Vienna's new education campus.

It's a massive project that will open up new education opportunities for 2,200 Viennese children from autumn 2021: the new Campus plus, which is taking shape at two locations – in the city's third district and in the Seestadt area. The concept will bring the kindergarten and school closer together, with shared use of some spaces. There is also a range of leisure facilities for the children and young people. HYPO NOE Leasing has assumed overall responsibility for the construction project under a public-private partnership (see interview).

In perfect harmony. The site in the Aspanggründe area of the third district will be home to 14 kindergarten groups (including a therapeutic-education group) as well as 17 primary school groups. Special-needs and basic general education classes will provide support for children with disabilities and learning difficulties. The facilities will also include therapy rooms, a gym, two fitness rooms and a music school.

"Financing social infrastructure has been our core competence ever since the Bank was established. This project goes one step further and underlines our leading position in this segment."

Wolfgang Viehauser, Management Board Member Markets and Speaker

THE NEW EDUCATION CAMPUS: FACTS AND FIGURES

- Kindergartens and schools for a total of 2,200 children and young people
- Total area: approx. 36,000m²
- Total investment: approx. EUR 100m
- Scheduled completion: August 2021

PUBLIC-PRIVATE PARTNERSHIP

A public-private partnership (PPP) is a long-term collaboration between the public sector and private enterprise. In a contractual PPP – the form used for the new campus – private companies implement a plan as part of a project for which the public-sector client is responsible. With institutionalised PPPs, however, private-sector firms either invest in a public-sector company, or found a public-private company jointly with the public sector.

The new campus will named after charismatic Jewish teacher Aron Menczer, who saved the lives of many Jewish children in Vienna between 1939 and 1942 before himself falling victim to the Holocaust in 1943.

Focus on young people. The second site in this new education project is being built on an extensive green space in the north of the Seestadt area. It will feature 12 kindergarten groups, a primary school with 17 classes and a 16-class Neue Mittelschule (New Secondary School). A modern youth centre will also form part of the campus.

"An excellent fit for our portfolio"

NEW DIRECTIONS. Manuela Morlock, a business law specialist at HYPO NOE Leasing, talks about the HYPO NOE Group's role in Vienna's new education campus and the challenges associated specifically with public-private partnerships.

Ms Morlock, the HYPO NOE Group is moving in a new direction with its involvement in the education campus project. How does it differ from conventional financing for public infrastructure?
MANUELA MORLOCK: The HYPO NOE Group has been involved in many construction projects. But what's new about the education campus is that we have assumed overall responsibility for financing, construction and operation as part of a "classic" public-private partnership. HYPO NOE Leasing formed a consortium with Strabag Real Estate to submit a bid for the City of Vienna's EU-wide tender.

What tipped the scales when it came to taking on these responsibilities?
PPPs are a highly complex product. We are a leading provider of infrastructure finance, so this education project in our home market of Lower Austria and Vienna is an excellent fit for our portfolio and the Group's philosophy.

What is your role in the project at present?
Clearly, the financing is our primary focus. External finance is being provided by a consortium comprising the European Investment Bank and Helaba. We are the main point of contact for the City of Vienna. To make the project successful, every step has to be coordinated with the various partners on an equal footing. That means Strabag and Siemens on the construction side, as well as Siemens Gebäudemanagement, which will be responsible for operating the building, in other words cleaning, maintenance and repairs.

How long will the HYPO NOE Group be part of the project?
We'll be involved for a very long time: the contract with the City of Vienna runs for 27.5 years, which is split into the two-and-a-half-year construction phase and the subsequent 25-year use phase.

Manuela Morlock is head of refinancing at HYPO NOE Leasing.

Finance package coupled with state funding expertise

FULL SERVICE. HYPO NOE Landesbank has teamed up with the Polytechnik Group and is bringing its financial expertise to bear in the construction of a new production facility for biochar and filter equipment in Weissenbach, Lower Austria.

As a global player in biomass incineration plants, Polytechnik Luft- und Feuerungstechnik GmbH, which is headquartered in Weissenbach an der Triesting, makes a valuable contribution to the regional economy as well as driving forward the Energiewende ("energy transformation"). The Polytechnik Group employs a total of about 250 people. It has more than 15 offices in Europe and another four overseas.

Compared with fossil fuels, biomass – such as wood waste or straw – and biogas are renewable and CO_2-neutral. Polytechnik's highly automated, high-efficiency equipment helps to reduce fuel use and minimise pollutant emissions.

On track for expansion. The family business has significantly extended its product portfolio in recent years and upped the volume of business is does abroad. Recently, the company developed a new kind of biochar facility and filter equipment for use in flue gas purification systems. All of this required modernisation of the company's HQ and a new 2,000-square-metre production plant, which is due for completion in September 2020. The investment amounted to around EUR 6m. Polytechnik needed a reliable financing partner to realise its modernisation plans, and HYPO NOE Landesbank was given the job.

"We try to be an uncomplicated bank. And our customers appreciate that."

Markus Pieringer, Division Head, Corporate Customers

Good advice. The Lower Austrian state bank's extensive expertise in connection with business subsidies was a key factor in the decision. This is a complex topic, so the Bank's Corporate Customers Division has its own subsidy experts who advise customers and provide assistance with completing the necessary formalities. A wide-ranging package of subsidies was secured for the Polytechnik project. These included federal government subsidies (an erp loan) from Austria Wirtschaftsservice (aws), finance from the European Regional Development Fund, and a grant from the State of Lower Austria.

Strong partner. "HYPO NOE Landesbank and the Polytechnik Group worked together to draw up a multi-component financing concept," explains the

Inspecting the company's premises where a new production facility will soon take shape.

Trusted partners: Polytechnik managers Lukas Schirnhofer (far left) and Alexander Joham (centre) with Markus Pieringer, Bernd Rosner and Christian Doppler (from left to right) of HYPO NOE Landesbank.

Bank's Senior Key Account Manager Bernd Rosner, who is responsible for the client. This concept includes a low-interest erp loan administered by the Bank in a fiduciary role and a conventional investment loan to provide pre-financing for the construction costs and to cover other expenses incurred before the subsidies are disbursed. Rosner has worked on numerous large-scale projects over the past decade: "Each one is different, but in every plan there are countless complex processes running in the background, and we aim to free our customers from that burden. As a bank, we try to make implementing their plans as straightforward for them as possible."

Groundbreaking collaboration. Rosner is a great believer in Polytechnik's outstanding potential as a "hidden champion": "With its know-how, the company could be in a position to go from strength to strength." Construction of the production plant in Weissenbach is the first major project that Polytechnik and HYPO NOE Landesbank have collaborated on. Rosner emphasises that he would be very much in favour of a long-term partnership that paves the way for Polytechnik's foreign expansion, including into China. ■

THREE QUESTIONS FOR...

Lukas Schirnhofer, Managing Director of Polytechnik

Why did you decide to partner up with HYPO NOE Landesbank?
The Bank's expert advice on subsidies and its very straightforward, professional approach made the difference for us.

You're committed to fostering growth and innovation. How significant is your banking partner in these respects?
I would say highly significant in a number of different ways: when it comes to innovation, it's important that we receive sound advice and strong support for our subsidy strategy and our financing. If we want to break into new markets, the focus is on exploring options for equity financing and, ideally, securing support in the country concerned. To boost revenue, we need a finance partner that helps us to raise the necessary working capital. The basis for all of this is that the bank puts its trust in the company and the management.

What product innovations are currently in the pipeline?
Firstly, our baking technology with extreme air staging is at the production stage – with this technology, Polytechnik has managed to reduce fine particulate emissions to close to zero, without using a flue gas purification system or a filter. Another innovation is our patented charring plant, which produces top-quality biochar for the pharmaceuticals and animal feed industries. In the agriculture sector, biochar is used in the form of terra preta, which helps to improve soil conditions and capture CO_2. One tonne of biochar stores 3.5 tonnes of CO_2 in the ground. We expect innovations like these to deliver substantial revenue growth, which in turn will secure jobs.

Lukas Schirnhofer, Managing Director of Polytechnik

Podium performance from our sport and social sponsorship initiatives

A CHARITY BRUNCH, A BEACH VOLLEYBALL TOURNAMENT AND A REPAIR CAFÉ: HYPO NOE Landesbank's support for social and cultural initiatives and sports events is just as diverse as the Company itself.

Charity brunch for Sonntagberg basilica

Major renovation work at the Sonntagberg basilica – the iconic landmark in the Mostviertel region – got under way in 2014. This mega-project is due for completion in 2024. But substantial donations are required to reach that point. A good reason, then, for HYPO NOE Landesbank to stage a brunch for this great cause. The 40 or so guests included National Council President Wolfgang Sobotka, Abbot Petrus Pilsinger, and numerous regional businesspeople. The highlight of the event was an auction of rare wines from some of Lower Austria's abbey wineries.

The money donated by the HYPO NOE Management Board members (centre) will keep things running smoothly.

Visit to the Caritas kitchen

The new 'magdas' kitchen in Vienna's Liesing district is Caritas Vienna's latest social business project. It delivers up to 25,000 meals per week to Caritas facilities, and in future will also supply schools, kindergartens and businesses. The food is prepared by people who are long-term unemployed, people with disabilities, and refugees. HYPO NOE Landesbank provided finance for the project. And HYPO NOE Management Board members Wolfgang Viehauser and Udo Birkner decided to see for themselves what's cooking. The bank for Lower Austria has also extended its collaboration with the Caritas Lerncafés (learning cafes). Here, children from disadvantaged backgrounds receive free help with their homework.

Volkshilfe repair cafe: fixing the throw-away society

Far too often, items are binned that could be put back in working order with a little effort. The Volkshilfe repair cafe in Wiener Neustadt breathes new life into everyday objects that have been thrown away. Visitors bring items with them and repair them themselves, with expert assistance from the cafe's volunteers. A sustainable project that HYPO NOE Landesbank is more than happy to support.

Repairing something is not only cheaper, it's also better for the environment.

Secure in your own four walls: how to keep burglars at bay

HYPO NOE Landesbank and the Lower Austrian Police Service have launched a joint initiative designed to show how people can make their homes secure. The core of the initiative, which is entitled "Sicherheit für Ihr Zuhause" ("Security at Home"), is a useful brochure full of valuable tips on how people can protect their homes against break-ins.

Lower Austrian START scholarship: summer internships at the Bank

"I've learned a lot from all my positive interactions with colleagues and customers", says Suliman Qayoumi.

Three recipients of START-NÖ scholarships completed internships at different HYPO NOE Landesbank branches this summer. "I gained a lot of new experience and I'll never forget my time here," commented Batoul Kollieh (20), who did her internship at the Bank's Horn branch. In August, Adham Al Mardini (19) spent time working in the Controlling Department at the head office in St. Pölten, while Suliman Qayoumi (16) joined the team at one of the Vienna branches. The START scholarship programme is aimed at young people with migrant backgrounds. HYPO NOE Landesbank supports the initiative, along with a number of other well-known companies.

"Thanks to the support of HYPO NOE, we were able to focus all of our attention on overcoming the challenge of qualifying for the Olympics": Clemens Doppler and Alexander Horst in action.

Fun, action and double gold

Clemens Doppler and Alexander Horst, HYPO NOE Landesbank's standard bearers on the beach volleyball circuit, had Strandbad Baden on its feet again in June 2019. They sparked celebrations among the spectators by defending their title at the FIVB Beach Volleyball World Tour event in Baden, beating Russian duo Maxim Sivolap and Artem Yarzutkin. Their victory came only 24 hours after Austrian pair Katharina Schützenhöfer and Lena Plesiutschnig had triumphed in the women's competition.

HYPO NOE Landesbank is one of Lower Austria's biggest sports sponsors. The HYPO NOE sporting family includes athletes from a range of team and individual sports. Besides ball sports, the emphasis is on developing talented youngsters.

Snowboard crosser Pia Zerkhold – another member of the HYPO NOE sporting family.

Middle East expert Antonia Rados provided shrewd analysis and insights.

Living in a time of transition

HYPO NOE INVEST CLUB 2019. Celebrating its tenth anniversary, the customer event at Palais Niederösterreich in Vienna focused on the topic of global conflicts.

HYPO NOE Landesbank launched its Invest Club in 2009 to "take a look at the wider picture and hold frank discussions on the latest trends, from which we cannot hide," as Management Board member Wolfgang Viehauser pointed out in his opening speech to mark ten years of the event.

The keynote speaker has made looking at the wider picture her profession: renowned former ORF correspondent and war reporter Antonia Rados gave the 200 or so invited guests and partners of the Bank insights into her work. "Everything we see in the world today, and have seen in the recent past – the 2008/09 financial crisis, Ukraine and much more besides – can be described in a single sentence: we're living in a time of transition that affects us all and has an impact on all of our lives," she commented.

Around 200 guests debated the bigger picture.

Looking at the world through a smartphone screen. The Arab Spring showed just how tightly networked our world is: "Two-thirds of the Middle East's population are under 30. By contrast, their rulers are old," the Middle East expert said. Now, they can see how people in democratic states live: "This discontent sparked the Arab Spring," Rados explained. The refugee crisis illustrated how the USA has turned its back on the Middle East. Without the protection of the US, it is now up to Europe to take matters into its own hands, and look not only westwards but also to the east, she added.

Ready for the future. Although political tensions do not have a direct influence on HYPO NOE Landesbank, indirect effects cannot be ruled out, according to Wolfgang Viehauser. For instance, refinancing costs for European banks could climb, which in turn would increase the risk of defaults. "But HYPO NOE Landesbank is in excellent shape and ready for the future," as Viehauser emphasised.

Annual Report
HYPO NOE Group

GROUP OPERATIONAL AND FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2019

Part II: HYPO NOE GROUP ANNUAL REPORT

1 ECONOMIC CLIMATE

1.1 Global economic and capital market trends

The political uncertainties in connection with trade disputes, and the danger of a no-deal British exit from the European Union (Brexit) were a severe drag on the world economy in 2019. At 3.0%, the global growth rate was the lowest since 2009. World industrial production was hit hard by the decline in the volume of global trade, resulting in a year-on-year contraction in this sector's output. The service sector was not entirely untouched by the adverse environment, but made a positive growth contribution. The labour market was stable in many countries, meaning that consumer confidence was largely unaffected and private consumption was a major mainstay of growth. The construction sector benefited from very low interest rates. The negative impact of the trade tensions was felt almost everywhere, but open economies and those with large manufacturing sectors were most strongly affected. Not even the US economy was immune to the global slowdown, although there were still some residual positive effects from the fiscal loosening in 2018. The economic outlook worsened until the summer. In the autumn, there were signs of detente on the Brexit front and in the trade dispute between the United States and China, which enabled the world economy to stabilise at a low level in the fourth quarter.

Consumer price trends diverged in the ten leading industrial countries. Inflationary pressures eased in most of them as compared to the previous year. Particularly in the eurozone, Japan and Switzerland, where the central banks concerned have been trying for years to counter excessively low inflation by running expansionary monetary policies, inflation was again well below the banks' targets. The headline inflation rate, which had been 2.3% in October 2018, fell to 0.7% by the end of 2019. As in the two previous years, the less volatile core inflation rate stayed close to 1.0%.

At the start of the year, the central banks reacted to the noticeably gloomier economic climate and declining inflationary expectations by making an abrupt shift to a looser monetary stance. The US central bank – the Federal Reserve – cut its key rate by a total of 75 basis points in the course of the year. The Fed also ended its balance sheet reduction programme ahead of schedule and decided to resume expanding its balance sheet due to money market distortions. Early on in the year, the European Central Bank (ECB) signalled new measures which were ultimately adopted in September. Besides a further cut in the deposit rate to -0.5%, the ECB decided to recommence the asset purchase programme halted at the end of 2018. Since November, it has been investing EUR 20bn per month in government and other bonds; as of now, there is no time limit to the purchases. Some ECB Governing Council members have criticised this policy, which has influenced interest rate expectations on the capital markets. The worries about the medium- and long-term consequences of the ECB's persistent low- and negative-interest-rate policy are growing, not just outside but also within the ECB's governing bodies. In November, Mario Draghi handed over the presidency to his successor Christine Lagarde. On the capital markets, the appointments of Lagarde and the new ECB Chief Economist Phillip Lane are seen as a signal that the Bank will maintain its expansionary stance. However, the ECB's monetary policy leeway was largely exhausted during Draghi's period of office.

The supportive measures taken by the central banks in the course of 2019 contributed to the stabilisation of the world economy at a low level towards the end of the year. The action taken by the central banks also had a considerable influence on asset prices. Despite poor economic data and instances of falling corporate profits, the high-risk asset classes were among the big winners. Most share indices marked up gains of 20-30% towards the end of 2019. Emerging-market and high-yield bonds also recorded substantial price rises. However, the volume of bonds with negative yields reached a new global all-time high of EUR 18bn during the summer.

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

1.2.1 Austria and Germany

In step with the international downturn, economic growth in Austria and Germany – the Group's core market – again decelerated markedly in 2019. The Austrian economy expanded by 1.4%, and the German economy by 0.5%, while eurozone growth was forecast to come in at 1.2%. This loss of momentum was reflected in the Eurostat business confidence indicator, with the Bank's core market losing six to eight index points year on year.

This slowdown, which began in the motor industry, mainly affected the export industries. In Austria, the negative effects were initially offset by stronger exports of services to CEE countries, but there was a marked deterioration in the German industrial business confidence indicator. German car production has dropped by 20% since mid-2018 due to weak investment around the world, tougher emission standards and the planned transition to a new drivetrain technology. A fall-off in export and capital investment growth was noticeable in both countries. Persistently strong private consumption continued to be stoked by rising household incomes and lower inflation, and combined with healthy construction orders to prevent a sharper economic contraction.

Housing investment again grew rapidly, rising by 4% year on year, not least as a result of continued low interest rates. Home lending rose by 5.7% in the year to October 2019. The Austrian housing market eased due to faster growth in construction output and softening demand. The country's demand overhang, put at 65,000 housing units in 2016, had narrowed to 31,000 by 2018. The Oesterreichische Nationalbank (OeNB) currently regards the systemic risks posed by property finance in Austria as limited and believes that care is still being taken to ensure that lending practices are sustainable.

The indebtedness of households and businesses is well below the eurozone averages in the Bank's core market, at 65.3% and 104.9% of gross domestic product (GDP), respectively. Credit growth remained at a comparatively high level in Austria in 2019. In the first half, lending to businesses was up by 7.2%, and that to households by 4.5%, year on year. Government deficit-reduction efforts in the Bank's core market benefited from the strong economic growth in recent years and the present low-interest-rate environment. Due to high primary surpluses, sharp falls in the interest burden and the success of the nationalised banks in unwinding debt in Austria and Germany, the former's budget surplus climbed from 0.2% of GDP in 2018 to 0.5% in 2019. Austria accordingly achieved a further cut in the public debt ratio, from 74.0% to 70.4%. Germany has been running budget surpluses for some years now, and successive reductions in the debt ratio have left it at about 60%.

1.2.2 Federal states

Growth in the federal states lost pace in 2019. Heavily industrialised, export-oriented states like Upper Austria, Styria and Vorarlberg were forced to downgrade their growth expectations in 2019 because of slackening export demand. The growth of the Lower Austrian economy was average for the federal states, dipping from 3.1% in 2018 to 1.4% in 2019.

While industry only registered marginal growth in 2019, construction output jumped in all states. Lower Austria was among the leaders, with a gain of 10.2% in the year to June 2019. However, decreasing building permits point to a coming fall-off in growth.

The budget situation improved significantly in all the states – both aggregate current expenditure and income have climbed recently. Lower Austria's budget surplus grew once more. The aggregate financial debt of all the states remained stable, while state government guarantees have fallen slightly.

1.3 Banking sector trends in the eurozone

Today, about a decade after the outbreak of the financial crisis, the European banking industry has completed a fundamental transformation. The regulatory requirements to which banks are subject at European level have been considerably tightened in order to increase the sector's resilience in the event of another crisis. The regulatory measures taken have often added to the banks' internal costs – notably in respect of overall management control.

The prevailing low-interest-rate environment continued to pose a challenge for the entire European financial sector, and there is no change in sight this year. The squeeze on profits is particularly likely to persist in the case of banks that are heavily dependent on net interest margins and have done little to diversify their sources of income. Of late, the equity ratios of banks in the European Union have stabilised at high levels. Another key trend witnessed during the year just ended was the ongoing digitalisation of customer services. The multi-channel approaches that continue to be seen at the branches of universal banks, augmented by digital offerings, remained the usual strategy in Europe.

The Austrian banking sector is among those deemed to have made progress. The OeNB stressed this in its Financial Stability Report published in December 2019. Austria's banks are benefiting from the restructuring efforts of recent years. As a result of this concentration process, the number of banks (main institutions) has dropped by around a quarter since 2012. Although 2019 saw a deceleration in this trend, it is likely to be prolonged. The Austrian banks' operating profits continued to advance during the first half of 2019, due to the stable economic climate and a related improvement in credit quality, among other factors. The continued growth in new lending also stood out, although according to the OeNB the trend towards new household loans at fixed interest rates levelled off. Improved profitability contributed to a further strengthening in Austrian banks' capitalisation, reinforcing country's financial market stability. The non-performing loan (NPL) ratio decreased to 2.3% as at 30 June 2019 (31 Dec. 2018: 2.6%). This trend was also visible in the Austrian banks' key CEE markets, where generally good economic conditions led to a further improvement in equity ratios.

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 dependable commercial bank, stable state bank and specialist mortgage lender for over 130 years. Using its strong position in Lower Austria and Vienna as a springboard, the Bank operates primarily in Austria and Germany, as well as in selected markets elsewhere in the European Union.

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

The Group concentrates on five business segments that play to its core competencies: Public Sector, Real Estate Customers, Retail and Corporate Customers, Treasury & ALM, and Real Estate Services. The Group also includes HYPO NOE Leasing, which works with large state and local government customers, and HYPO NOE Real Consult und HYPO NOE First Facility, which look after real estate customers, meaning that it can provide services across the entire real estate management value chain. Figures for the individual segments, as well as supplementary narrative information, can be found in the Note 2 Segment information.

HYPO NOE Landesbank is one of Austria's leading covered bond issuers and is a regular participant on the capital markets through the flotation of secured and unsecured benchmark bonds. Based on the solid foundations provided by customer deposits, and on its closer cooperation with development banks, HYPO NOE Landesbank also takes steps aimed at diversifying its sources of refinancing. Standard & Poor's currently gives the Bank a solid single A rating with a positive 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 view and ensures that it stays true to its strategy of organic growth in its core business, best-in-class digital solutions in its mortgage lending, and further improvements in profitability, whilst maintaining a conservative risk and capital profile.

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

By the end of 2019, notable progress had been made on delivering against the Zukunftsfit 2020 efficiency programme, launched in 2016. This programme has streamlined structures and processes across the Group, optimised the business model, and prompted investment in digital infrastructure. Zukunftsfit 2020 has turned the spotlight on asset quality, capitalisation and profitability, and the significant reduction in administrative expenses is testimony to the improvement in operational efficiency. Milestones of the programme included the merger of the retail and residential construction businesses with the core bank, and the restructuring of the real estate services business.

Building on this initiative, an organisational development process billed as Fokus 25 was launched last year. The entire workforce was involved in collectively redefining the Group's vision, mission, strategy and values. In future, the Group will be tightening its focus on its core competencies – financing infrastructure, housing construction and corporates. It would like to continue expanding in these areas and hopes to figure as a leading finance partner beyond its home market. An outcome of Fokus 25 was the decision to define Lower Austria and Vienna as the Group's home market, and the rest of Austria and Germany as its core market. A selective approach will be taken regarding exposure to other EU markets.

[1] In terms of total assets (2018 consolidated financial statements) and foundation dates.

3 FINANCIAL REVIEW

- Further growth in core earnings: "Net interest income" up by 5.3%, and "Net fee and commission income" by 15.1% year on year
- "Administrative expenses" 2.4% lower year on year, cost/income ratio (CIR) down to 59.5% (31 Dec. 2018: 67.0%)
- New lending of EUR 1.8bn, compared with EUR 1.4bn in 2018
- Common Equity Tier 1 (CET1) ratio well above the legal minimum and the European average at 19.19%
- Further improvement in the non-performing loan (NPL) ratio to 0.96% (31 Dec. 2018: 1.42%)

		2019	2018
Return on equity before tax	Profit before tax/ave. consolidated equity	5.60%	7.01%
Return on equity after tax	Profit for the year/ave. consolidated equity	4.51%	5.33%
Return on assets	Profit for the year/total assets	0.21%	0.26%
Cost/income ratio	Operating expenses/operating income	59.51%	66.96%
NPL ratio	Carrying amounts of non-performing financial assets – AC (excl. banks)/financial assets – AC (excl. banks)	0.96%	1.42%

"Profit before tax" was well above the long-term average, at EUR 37.7m (2014-2018: 30.4m). This was chiefly a reflection of increased operating income in the retail business, as well as further reductions in "Administrative expenses". The key factor behind the previous year's high pre-tax profit of EUR 48.0m was particularly strong net gains on risk provisions (reversals of risk provisions).

The HYPO NOE Group's operating income climbed by 4.7% in 2019, to EUR 157.3m (2018: EUR 150.2m). After adjustment for exceptional factors[2], operating income was up by 9.4% to EUR 162.0m (2018: EUR 148.1m), underlining the strong operating performance driven by further growth in core earnings.

- "Net interest income" advanced by 5.3% to EUR 117.9m (2018: EUR 111.9m) despite the prolonged low-interest-rate phase. The positive earnings trend was also supported by the success of new business activities and by lower refinancing costs.
- The continued emphasis on service business was reflected in the 15.1% surge in "Net fee and commission income" to EUR 17.0m (2018: 14.8m).

Meanwhile, "Administrative expenses" decreased by 2.4% to EUR 110.1m (after adjustments for exceptional factors[3]: EUR 96.4m) thanks to further efficiency measures. This compares with EUR 112.8m in 2018 (after adjustments for exceptional factors: EUR 99.2m). The CIR improved by 7.5 percentage points year on year to stand at 59.5%.

The increase of 3.6% in total assets to EUR 14.6bn (31 Dec. 2018: EUR 14.1bn) is principally attributable to the success of the Group's core businesses and reflects the close interlocking of its operations. For instance, the "Financial assets – AC" item was 6.7% higher, at EUR 12.4bn (31 Dec. 2018: EUR 11.6bn), due to the growth in new lending. The "Financial liabilities – AC" item increased accordingly, by 3.4% year on year, to EUR 12.5bn. The refinancing structure was further diversified as compared to the previous year. The Group's robust capitalisation and solid market position gave it a strong platform for new business, which grew for a third year in succession, powering ahead to EUR 1.8bn (31 Dec. 2018: EUR 1.4bn). New lending was well balanced among the Group's areas of business, and was aligned with the Group's core competencies.

As at 31 December 2019, IFRS consolidated equity including non-controlling interests stood at EUR 683.2m – EUR 19.8m higher than at year-end 2018. Equity was lifted by the high profit for the year, which was partly offset by the dividend payment and the decline in the OCI reserves.

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

[2] Measurement of the claim arising from the "HETA contingent additional purchase price", and allocation to the provision for negative interest rates payable by corporate customers
[3] Expenses arising from contributions to the resolution and deposit insurance funds, as well as the instalment payment to the Austrian banking stability contribution (2017-2020).

3.1 Changes in consolidated own funds (CRR/CRD IV)

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

Consolidated eligible capital in accordance with the CRR was EUR 666.3m as at 31 December 2019 (31 Dec. 2018: EUR 646.2m).

Excess equity excluding buffers stood at EUR388.5m as at 31 December 2019 (31 Dec. 2018: EUR 399.6m), compared with a capital requirement of EUR 277.8m (31 Dec. 2018: EUR 246.5m). 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 19.19% as at 31 December 2019 (31 Dec. 2018: both ratios 20.97%), and were identical to the fully loaded ratios (31 Dec. 2018: both fully loaded ratios 20.97%).

3.2 Cost/income ratio

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

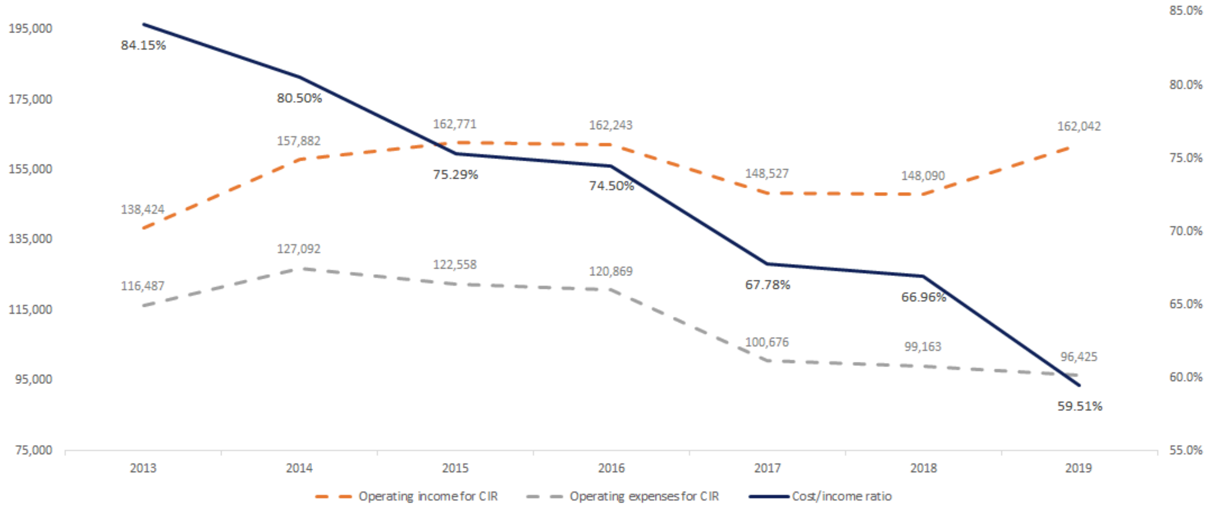
Operating expenses are based on the figure for "administrative expenses", and in 2019, as in the previous year, the following exceptional, non-recurring components were stripped out: (1) the contribution to the resolution fund; (2) the contribution to the deposit insurance fund; and (3) the instalment of the financial stability contribution spread over the years 2017-2020.

"Operating income" is composed of "Net interest income", "Net fee and commission income", "Net gains or losses on financial assets and liabilities", "Net other operating income", "Net operating expenses" and "Net gains or losses on investments accounted for using the equity method". In 2019 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 also Note 6.2 Provisions). In 2019 an adjustment was also made to the net gains or losses on deconsolidation of a company with a property near the centre of Vienna.

	2019	2018
Net interest income	117,910	111,933
Net fee and commission income	17,022	14,791
Net gains on financial assets and liabilities	5,128	14,233
Net other operating income	14,420	9,752
Net gains or losses on investments accounted for using the equity method	2,793	-534
Extraordinary effects	4,768	-2,086
Operating income	**162,042**	**148,090**
Administrative expenses	110,067	112,772
Extraordinary effects	-13,642	-13,609
Operating expenses	**96,425**	**99,163**
CIR	**59.51%**	**66.96%**

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

CIR since 2013*



*Retrospectively adjusted, as described above

3.3 Non-performing loan ratio

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

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

EUR '000	31 Dec. 2019	31 Dec. 2018
Financial assets – AC (excl. banks)	11,426,518	10,784,458
Non-performing loans	110,177	152,959
NPL ratio	0.96%	1.42%

The Group's very low non-performing loan ratio is explained by its business model, which favours low-risk business and risk-aware lending.

3.4 Liquidity coverage ratio

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

EUR '000	31 Dec. 2019	31 Dec. 2018
Liquidity buffer	1,239,880	1,373,234
Total net cash outflows	789,032	692,610
LCR	157.14%	198.27%

4 HUMAN RESOURCE MANAGEMENT

The long-term success of the HYPO NOE Group will depend on the personal commitment and dedication of the workforce. Without their contribution, the marked productivity gains 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.

The Fokus 25 organisational development process launched at the end of 2018 with a view to creating a clear alignment towards the HYPO NOE Group's long-term success was completed in December 2019. In the course of this project, the Group's strategy, vision, mission and values were redefined and its leadership principles reformulated. Employees were able to actively participate in various ways, and so help to shape the Group's future. The process was rounded off by a Group-wide employee survey in the fourth quarter, which was very well received, with an outstanding 85% response rate. The results were presented at a staff meeting. Actions derived from the survey will be initiated in the course of 2020.

4.1 Human resources in 2019: facts and figures

At year-end 2019, the HYPO NOE Group had 742 employees (2018: 789), 40 of whom were on parental leave (2018: 40). The workforce of 742 comprised 425 male and 317 female employees (2018: 445 male and 344 female). In terms of full-time equivalents (FTE), there were 660.6 employees at year-end (2018: 698.8). Excluding non-active employees, the headcount falls to 616.7 FTE as at 31 December 2019. Five employees work at the foreign representative offices (2018: six).

The table below shows the changes in headcounts over time.

	2019							2018						
	HC			Ave. HC p.a.	FTE			HC			Ave. HC p.a.	FTE		
	Total	m	f	Total	Total	m	f	Total	m	f	Total	Total	m	f
HYPO NOE Landesbank für Niederösterreich und Wien AG	584	310	274	588.9	514.0	296.9	217.1	603	322	281	607.7	526.9	300.3	226.6
HYPO NOE Real Consult GmbH	24	11	13	32.3	20.8	9.8	11.0	48	20	28	49.8	42.5	18.8	23.7
HYPO NOE Leasing GmbH	28	10	18	29.1	24.2	9.4	14.8	30	11	19	31.7	27.1	11.0	16.1
HYPO NOE Valuation & Advisory GmbH	-	-	-	-	-	-	-	-	-	-	2.0	-	-	-
HYPO NOE First Facility GmbH	99	88	11	101.0	95.3	85.9	9.4	100	87	13	102.6	95.6	84.9	10.7
HYPO NOE Versicherungs-service GmbH	5	4	1	5.8	4.8	4.0	0.8	6	4	2	5.8	5.2	4.0	1.2
HYPO NOE Immobilien Beteiligungsholding GmbH	2	2	-	2.6	1.5	1.5	-	2	1	1	1.3	1.5	0.5	1.0
HYPO NOE Group	742	425	317	759.7	660.6	407.5	253.1	789	445	344	800.9	698.8	419.5	279.3

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

As part of the Fokus 25 organisational development process, management and employees joined forces to drive change at HYPO NOE Landesbank. The initiative had four themes: corporate culture, customer relationships, strategic alignment and digitalisation. In order to maximise acceptance, as many employees as possible were involved in the process. To this end, a wide range of communication formats were used, including information events, large group workshops, focus groups and votes. Anonymised employee surveys helped capture the mood in the Group, reflect on the status of the organisational development process to date, and determine staff satisfaction with line managers. Motivation and satisfaction can only flourish in a setting shaped by respect, trust and development opportunities. The Bank's leadership principles and their application in practice were agreed and deepened at two-day workshops attended by all executives. A one-day follow-up seminar for the entire management dealt with putting the principles into practice. Management development actions scheduled for 2020 have been derived from the results of the employee survey. All the training activities are based on the leadership principles formulated by the Fokus 25 initiative.

Core tasks of the Human Resources Department are finding the right candidates, with appropriate qualifications, to fill vacancies, integrating them into the organisation, identifying and realising their potential, and helping them to develop new abilities. Staff development is therefore a key component of the HR strategy. Staff appraisals are a useful means of enhancing motivation and trust. Appraisal discussions between managers and employees at least once a year are mandatory. They promote a collaborative style of work and an open corporate culture. Performance reviews are an opportunity to discuss development and career opportunities. 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. There are a large number of courses on subjects such as leadership, communication, health and team building.

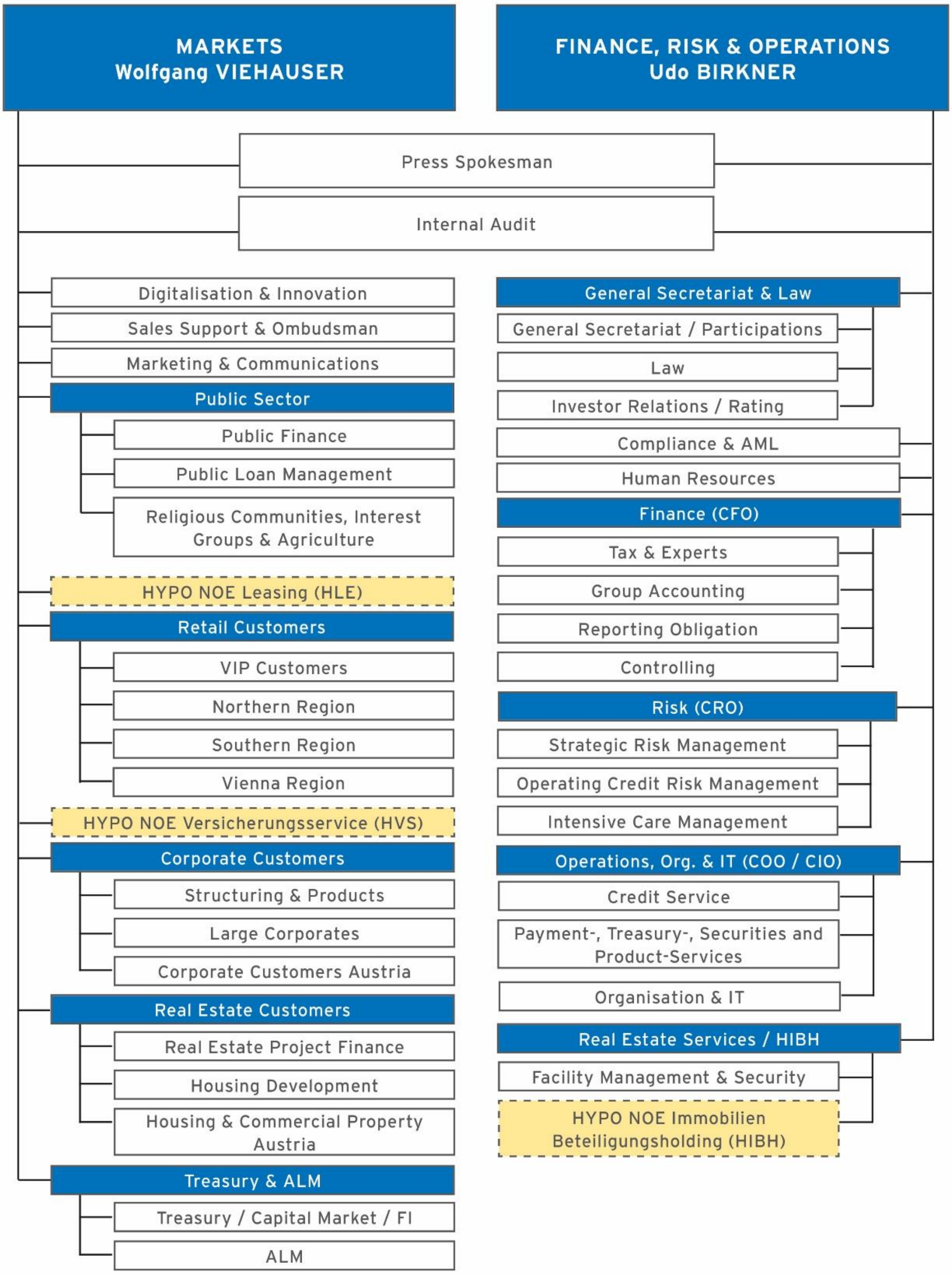
In 2019, the HYPO NOE Group also implemented a competency analysis tool that helps analyse the sales skills defined as relevant to the Group and draw up individual salesmanship training plans on the basis of the results.

The main focus of the specialist training in 2019 was on the HYPO 1 and HYPO 2 foundation qualifications in banking, prescribed by the collective agreement for employees of Austrian state mortgage banks, as well as European Investment Practitioner (EIP®) recertification of all investment advisors, and completion of the European Financial Advisor (EFA®) in-depth training.

On the lending business side, the certified housing advisor training programme was redesigned and relaunched.

In the insurance business, a training concept tailored to the regulatory requirements of the EU Insurance Distribution Directive (IDD) was formulated and the necessary training measures implemented.

The organisational chart at 31 December 2019 was as follows:


MARKETS
Wolfgang VIEHAUSER
FINANCE, RISK & OPERATIONS
Udo BIRKNER
Press Spokesman
Internal Audit
Digitalisation & Innovation
Sales Support & Ombudsman
Marketing & Communications
Public Sector
Public Finance
Public Loan Management
Religious Communities, Interest Groups & Agriculture
HYPO NOE Leasing (HLE)
Retail Customers
VIP Customers
Northern Region
Southern Region
Vienna Region
HYPO NOE Versicherungsservice (HVS)
Corporate Customers
Structuring & Products
Large Corporates
Corporate Customers Austria
Real Estate Customers
Real Estate Project Finance
Housing Development
Housing & Commercial Property Austria
Treasury & ALM
Treasury / Capital Market / FI
ALM
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
Real Estate Services / HIBH
Facility Management & Security
HYPO NOE Immobilien Beteiligungsholding (HIBH)

4.3 Human Resources Department's sustainability mission

The HYPO NOE Group is committed to helping its staff recognise and prevent health risks. As in previous years, in 2019 employees experiencing difficult situations were offered professional and anonymous support from external experts. Assistance is provided in connection with both professional and private circumstances, and includes support in crisis situations. The long-running Body Signals and Stress seminar for non-executive employees and Resource-Aware Living and Leading course for management staff were again fixtures in the Department's offerings. They help participants recognise personal stress patterns and develop individual approaches to coping with stressful situations. During the final quarter of the year, a women's network was set up with a view to increasing the proportion of women in management and expert roles. There should not be a conflict between family and career. The HYPO NOE Group will therefore undergo a Familie und Beruf (Family and Career) audit in 2020, with a view to evaluating and enhancing its family-friendly policies. The audit is an Austrian adaptation of the original audit process, aimed at improved family and career compatibility, developed in Germany on behalf of the HERTIE foundation (www.beruf-und-familie.de).

5 RISK REPORT

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

6 RESEARCH AND DEVELOPMENT

As a financial services provider, research and development in the industrial sense only plays a minor role at the HYPO NOE Group. The Group constantly invests in innovation and development, in line with the guiding principle of offering customers continuous improvements in product quality and in all lines of business (further information can be found in Note 2 Segment information, in particular in the section on the Retail and Corporate Customers segment).

7 EQUITY INVESTMENTS AND BRANCH OFFICES

The HYPO NOE Group holds investments that support its strategy. The Bank only enters into and retains such investments if they are compatible with the Group's primary business objectives. In line with its role as a shareholder representative, the Bank 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.

As of 31 December 2019, HYPO NOE Landesbank für Niederösterreich und Wien AG had no foreign branches, but operated representative offices in Bucharest, Budapest and Prague. The representative office in Sofia was closed on 1 November 2019 following the redefinition of the core market. HYPO NOE Landesbank has operated a branch office at Wipplingerstrasse 4, 1010 Vienna since 2008.

As at 31 December 2019, HYPO NOE Landesbank had 27 branches in Lower Austria and Vienna.

8 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (ICS)

8.1 Internal audit

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

Banks must establish an internal audit department that reports directly to senior management and focuses exclusively on comprehensive, ongoing review of the legality, orderliness and expediency of the operations of the entire enterprise. The internal audit function must have the resources required to perform its role properly, taking account of the volume of business.

The HYPO NOE Group's internal auditing activities are based on annual audit plans approved by the Management Board.

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

In 2019, the department performed audits in accordance with the approved annual plan, as well as undertaking special audit assignments as requested by the Management Board. As a rule, audit reports contain suggestions for improvements. Implementation of these recommendations is part of the quality assurance side of the auditing work. In parallel, the Internal Audit Department was involved in a range of key projects.

The purpose of internal auditing activities is to identify weaknesses, and to provide independent and objective audit services and advice aimed at creating added value, improving business processes, and as a result enhancing the overall performance of the HYPO NOE Group.

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

The Management Board was notified of the audit findings orally and in writing, in a timely manner, and the Supervisory Board Audit Committee also received regular written and oral information; a summary of this information was provided to the Supervisory Board itself. Sufficient numbers of suitably qualified staff (ongoing staff training and development are a matter of course), an audit culture that takes account of current knowledge and needs, and effective networking within the organisation ensure that the Internal Audit Department fulfils its responsibilities within the Group as effectively as possible.

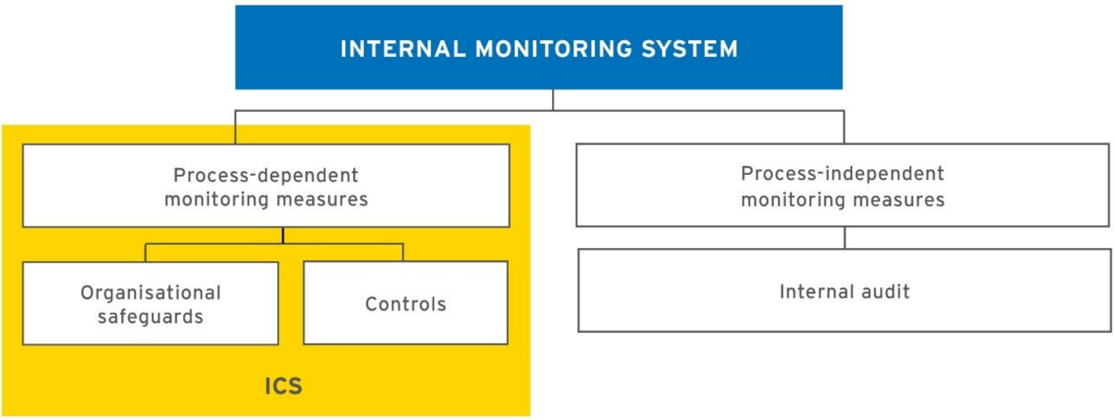
8.2 Relationship between the ICS and the accounting process

Reviewing the current risk assessment and management control matrixes was a focal point of activities again in 2019.

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

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

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



As part of the process-independent measures, internal auditing is clearly distinct from the ICS. All internal audit activities are subject to Group-wide standards based primarily on the Austrian Banking Act, the FMA Minimum Standards for Internal Auditing and international best practice. The independent Internal Audit department regularly reviews compliance by the various departments and other organisational units with the internal regulations. In 2019, the audits carried out in Accounting/Group Accounting focused on credit services for asset/clearing accounts and expense accounts, IFRS 9, and reporting.

There are two forms of process-dependent monitoring measures:

8.2.1 Organisational safeguards

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

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

8.2.2 Controls

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.

Examples of ICS controls:

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

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

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

- Employment of the Group's assets
- Recording all information required to draw up the annual financial statements, in order to prevent unauthorised purchases and sales
- Risk-based decision-making authorities and monitoring instruments which could have a material impact on the annual financial statements.
- Tailoring the chart of accounts to the Group's specific requirements
- Storage of vouchers according to systematic and chronological criteria, providing an adequate audit trail
- Documentation of processes involved in the preparation of the separate parent entity and consolidated financial statements, and the parent entity and Group operational and financial reviews, as well as the related risks and controls.
- Sufficient numbers of suitably qualified staff in departments involved in the accounting process; standardised training and development programmes to ensure that staff have the necessary skills for their roles; senior executives serving as role models in terms of integrity and ethical standards is the foundation of the control system
- Clear demarcation of the main functions involved in the accounting process – Group Accounting, Controlling and Strategic Risk Management and Operating Credit Risk Management – 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 by Group Accounting 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

- Periodic reporting to the Oesterreichische Nationalbank (OeNB) in accordance with the statutory reporting requirements for banks; forwarding of reports via the computer centre, and checking and correction of any errors by Group Accounting
- 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

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

The Management Board ensures that Company-wide monitoring of the ICS takes place by laying the organisational groundwork (assignment of responsibilities, creation of appropriate information systems, etc.).

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

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

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

In 2019, ICS-related activities centred on establishing and documenting checks on processes associated with the General Data Protection Regulation (GDPR), and reporting in connection with the Foreign Account Tax Compliance Act (FATCA), the Common Reporting Standard (CRS), the Bank's Qualified Intermediary (QI) status, and investment income withholding tax. In addition, work began on the risk assessments related to the European Payments Council's (EPC) risk management annexes (RMAs), which involves close cooperation between Back Office Payments & Product Service, Organisation & IT, and Strategic Risk Management.

9 INVESTOR RELATIONS

Timely, comprehensive and transparent capital market communications are a central concern for the HYPO NOE Group. Investors, institutional customers and analysts are regularly kept up to date with the Bank's business performance and current developments. This relies both on one-on-one communication with banks, insurance companies, pension funds and investment companies, and on extensive online offerings (www.hyponoe.at/en/ir).

In 2019, investor relations activities centred on direct contact with investors and analysts through one-on-ones, and on attendance of investment conferences. These activities were attuned to the goal of further diversifying the investor base beyond Austria and Germany, and in particular extending it to other, selected European markets.

International investors and analysts took part in an earnings call scheduled to coincide with the announcement of the results for 2018. In addition, the now-traditional investors' luncheon was held, and again met with strong interest from numerous capital market partners in Austria and abroad.

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

10 GROUP NON-FINANCIAL STATEMENT

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

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

10.1 Description of the business model

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

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

10.1.2 Products and services

HYPO NOE Landesbank is the largest and oldest-established of Austria's state mortgage banks[4], and has been a dependable commercial bank, stable state bank and specialist mortgage lender for over 130 years. Using its strong position in Lower Austria and Vienna as a springboard, the Bank operates primarily in Austria and Germany, as well as in selected markets elsewhere in the European Union.

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

10.2 Sustainability in the Group's core business

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

Inclusion criteria enshrined in the ethical guidelines and business principles are intended to promote business activities in areas that the Group believes generate the largest benefits for society, while exclusion criteria help to identify sectors

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[4] In terms of total assets (2018 consolidated financial statements) and foundation dates.

where the Bank chooses not to operate, in the interest of social responsibility. These guidelines, which also form part of the Group's credit risk management manual, are available online at www.hyponoe.at/nachhaltigkeit.

10.2.1 Partners and sustainable investments

With regard to sustainable investment, the HYPO NOE Group works with partners that enable it to offer environmentally sound and ethical investments in selected funds. The Group has organised a series of training courses and product information events in collaboration with its partners, in order to make sustainable investment opportunities more accessible to a wider audience. Initial success in this respect was reflected in the level of investment in sustainable funds, which exceeded EUR 67m at the end of the 2019 financial year.

10.3 Environment

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

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

10.3.1 Focus on energy efficiency

HYPO NOE's St. Pölten headquarters features state-of-the-art energy-efficiency measures and meets its own electricity requirements by means of a photovoltaic array that produced over 34,000 kWh of zero-emission power in 2019.

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

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

10.3.2 Climate-friendly mobility

Reducing emissions from transportation is one of the cornerstones of the HYPO NOE Group's environment and climate strategy.

Inspired by creating the "vehicle fleet of the future", the HYPO NOE Group has already slashed CO_2 emissions from vehicular transport by more than 44% since 2015. The number of company cars in the Group fleet was halved over the same period.

The new car policy specifically promotes the acquisition of low-emission company cars, sending out a clear signal with strict CO_2 limits. The number of e-vehicles in the fleet – currently five – will also be increased. To help support the move, five rapid-charging stations for staff, and a charging station for event guests and customers are available free of charge at HYPO NOE Group's headquarters.

This strong commitment was reflected in the achievement of project partner status for the klimaaktiv mobil action programme in June 2017. The Group has also undertaken to promote climate-friendly mobility in its home region.

10.4 Social and employee-related matters

In its role as the bank for Lower Austria, the HYPO NOE Landesbank 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.

Principles and guidelines for equitable collaboration

The HYPO NOE Group's market conduct and its dealings with customers and employees are governed by its code of conduct. The Group is also committed to complying with the International Labour Organisation's (ILO) international labour standards. Active cooperation with the works council, and observing the rights of employees and trade unions are a matter of course at the Group. In order to avoid gender pay gaps, in 2018 HYPO NOE Landesbank decided to participate in the Equal Pay consultation programme, which it concluded in 2019.

10.4.2 Training and development

Staff and managers receive regular, reasoned feedback on their development as part of the employee development and performance appraisal. Employees agree further training measures with their line manager in the course of the appraisal. In 2019, HYPO NOE Group employees completed a total of 2,811 days of training (2018: 2,646 days). Staff training and development is a leading priority for the Group, with an emphasis on enhancing professional expertise as well as personal development and teambuilding.

10.4.3 Health management

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

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

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

10.4.4 Disabled accessibility/access to financial services

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

10.5 Respecting human rights

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

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

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

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

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

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

The Group has established an internal feedback and complaints database, into which staff must enter all customer complaints. These are analysed on a regular basis, included in the ombudsman's report and evaluated for relevance to compliance issues. This approach helps to minimise the risk of compromising customer privacy as far as possible. There were no significant complaints or breaches related to the handling of customer data in 2019.

10.6 Anti-corruption and anti-bribery measures

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

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

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

10.6.1 Organisational structure

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

10.6.2 Internal compliance codes

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

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

interests of the customer in connection with securities services, among other matters

10.6.3 Raising awareness within the Group

The Group has adopted clear internal anti-corruption guidelines and this area forms an integral part of its compliance rules. Every new HYPO NOE Group employee is obliged to complete an online compliance and anti-money laundering training course within four weeks of joining the Group. All new employees also receive face-to-face training as part of their induction. All current employees must also complete this training at regular intervals. Anti-corruption policy is a core topic in the compliance training, and anti-corruption principles and recommendations are collated and published internally in the HYPO NOE Group Anti-corruption Guidelines. In 2019 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 2019.

Indicator/description	Unit	2019	2018	2017	2016
HYPO NOE GROUP					
ENVIRONMENTAL INDICATORS – carbon footprint					
Material consumption (paper)[1]	kg CO_2-e	17,064	14,470	15,539	26,598
Electricity[2]	kg CO_2-e	-	-	-	-
District heating	kg CO_2-e	174,233	247,688	252,169	260,330
Gas heating	kg CO_2-e	106,198	140,775	142,364	175,557
Passenger vehicle transport total[3]	kg CO_2-e	280,456	328,627	372,316	419,537
Flights	kg CO_2-e	26,983	44,872	49,885	59,149
Rail	kg CO_2-e	1,335	3,323	2,878	3,369
Total CO_2-e[4]	kg CO_2-e	606,269	779,755	835,150	944,540
CO2-e/Mitarbeiter[5]	kg CO_2-e	817	988	1,029	1,094

[1] Increase partially attributable to more precise invoicing in 2019 (comparability is therefore limited)
[2] Renewable electricity at all locations since 2016, therefore no CO_2 emissions recognised.
[3] Total distance covered by employees for business purposes with private cars and natural-gas-powered cars reported for the first time in 2018.
[4] Accuracy of vehicle transport calculations improved in 2019.
[5] Scope 1-3
CO_2-e conversion factors – source: DEFRA

Group CO_2 data by scope					
SCOPE 1: Heating energy (gas) and vehicle fleet	kg CO_2-e	386,654	469,402	514,679	595,094
SCOPE 2: Electricity and heating energy (district heating)	kg CO_2-e	174,233	247,688	252,169	260,330
SCOPE 3: Flights, rail and paper	kg CO_2-e	45,382	62,665	68,302	89,117

HUMAN RESOURCE INDICATORS					
Total employees	Head count	742	789	812	863
Female	Head count	317	344	361	377
Male	Head count	425	445	451	486

Managers by level					
Management Board/senior management, total	Head count	2	2	3	3
Management level 1 (until 2017: division coordinator/senior management; from 2018: division head)	Head count	10	9	3	4
Management level 2	Head count	17	17	18	29
Management level 3	Head count	45	45	44	29
Proportion of women on the Management Board	%	0%	0%	0%	0%
Proportion of women on the Supervisory Board	%	25%	25%	25%	17%
Management Board, over 50 years old	%	100%	100%	100%	100%
Supervisory Board, 30-50 years old	Head count	3	5	5	5
	%	25%	42%	42%	42%
Supervisory Board, over 50 years old	Head count	9	7	7	7
	%	75%	58%	58%	58%

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

Employment breakdown (excl. employees on parental leave)					
Full-time employees	Head count	523	549	569	621
Female	Head count	140	163	177	189
Male	Head count	383	386	392	432
Part-time employees	Head count	179	200	201	191

Female	Head count	141	144	147	143
Male	Head count	38	56	54	48

Indicator/description	Unit	2019	2018	2017	2016
Employees by category (excluding parental leave)					
Managers	Head count	74	73	68	66
	%	11%	10%	9%	8%
Female	Head count	14	15	11	12
	%	19%	21%	16%	18%
Male	Head count	60	58	57	54
	%	81%	79%	84%	82%
Managers under 30 years old	Head count	-	-	2	-
	%	0%	0%	3%	0%
Managers 30-50 years old	Head count	51	47	41	40
	%	69%	64%	60%	61%
Managers over 50 years old	Head count	23	26	25	26
	%	31%	36%	37%	39%
Employees	Head count	628	676	702	746
	%	89%	90%	91%	92%
Female	Head count	267	292	313	320
	%	43%	43%	45%	43%
Male	Head count	361	384	389	426
	%	57%	57%	55%	57%
Under 30 years old	Head count	86	92	82	108
	%	14%	14%	12%	14%
30-50 years old	Head count	378	421	426	441
	%	60%	62%	61%	59%
Over 50 years old	Head count	164	163	194	198
	%	26%	24%	28%	27%
New employees and staff turnover (31 Dec.-31 Dec.)					
New employees	Head count	102	120	64	89
	%	16%	17%	9%	11%
Female	Head count	43	43	25	41
	%	42%	36%	39%	46%
Male	Head count	59	77	39	48
	%	58%	64%	61%	54%
Under 30 years old	Head count	43	43	22	34
	%	42%	36%	34%	38%
30-50 years old	Head count	49	66	35	40
	%	48%	55%	55%	45%
Over 50 years old	Head count	10	11	7	15
	%	10%	9%	11%	17%

Indicator/description	Unit	2019	2018	2017	2016
Employees leaving	Head count	153	120	115	146
	%	17%	13%	12%	14%
Female	Head count	66	51	40	58
	%	43%	43%	35%	40%
Male	Head count	87	69	75	88
	%	57%	58%	65%	60%
Under 30 years old	Head count	37	28	29	38
	%	24%	23%	25%	26%
30-50 years old	Head count	79	64	61	80
	%	52%	53%	53%	55%
Over 50 years old	Head count	37	28	25	28
	%	24%	23%	22%	19%

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	2,811	2,646	1,982	1,761

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[1]	Days	7,078	6,316	6,723	6,819
Average days of sick leave per employee	Days	10	8	8	8
Occupational accidents	Total	7	10	5	10

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

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

11 GROUP OUTLOOK

11.1 Economic environment

Continued support from the central banks, mildly expansionary fiscal policy and the signs of detente in the trade dispute are grounds for hope that the economy may pick up somewhat in the course of 2020, although caution is advisable. The year ahead is unlikely to be entirely conflict-free. Among other things, the US election campaign and anticipated difficult negotiations between the European Union and the United Kingdom on their future relationship may give rise to uncertainty.

Monetary policy will therefore need to remain accommodative, although little is expected in the way of new measures. In this environment there is little upside potential for bond rates, while further mild price rises are expected on the stock markets.

Economic growth in Austria and Germany is forecast to slide to +1.1% and +0.6% respectively in 2020 before returning to the trend rates of 1.5% and 1.4% in 2021. Private consumption will remain a stabilising factor, while export and investment growth will be considerably more sluggish than in 2019.

On the basis of the information available to date, the first stage of the Austrian tax reform planned for the start of 2021 is classed as growth-friendly, and it could prompt companies and households to bring forward investments as early as the second half of 2020. Budget surpluses or at least balanced budgets are currently expected up to 2022, with the government debt ratio falling to 63%. This would be the lowest debt ratio since the 1990s. The unemployment rate is set to hold at its current very low level for the next two years, while employment growth will lose steam somewhat in line with economic activity. Construction investment is expected to reflect a slowdown in housing construction growth from 4.0% to 2.1%. Transport infrastructure is seen providing the main impetus to investment, due to the expansion of public transport and related growth in civil engineering output.

11.2 Outlook for Group performance

The emphasis for the HYPO NOE Group will be on further increasing profitability, enhancing asset quality and maintaining a strong balance sheet. The reason for maintaining robust capital ratios is to be sure of promptly complying with new and existing regulatory requirements, and to help the Group respond swiftly to business opportunities.

Providing finance for the public sector remains the central pillar of the HYPO NOE Group’s business model. Efforts to expand activities in the federal states neighbouring Lower Austria are continuing in order to increase the granularity of the portfolio. As regards product development, the emphasis will be on private partnership solutions and lease structures. Implementation will take place in conjunction with HYPO NOE Leasing GmbH.

In future reporting periods, business from cooperative and commercial housing developers in Austria will be further expanded, partly as a result of the push into neighbouring states. Business from international real estate customers is now likely to experience a catch-up effect following early repayments due to falling interest rates. The focus in this area will continue to be on cover-pool-eligible lending in EU markets with excellent creditworthiness.

In the corporate customer business, the successful growth strategy is proceeding to plan. The Bank has a full range of subsidy-related products and is stepping up services for corporate customers in the field of export and trade finance. In retail banking, offerings related to the core housing construction finance product are being expanded. The Bank is entering into partnerships in order to offer add-on products; this accords with the goal of further growth in net fee and commission income. Efficiency and digitalisation are high priorities.

In 2020, issuance will centre on the covered bond and senior unsecured segments, in line with the Bank’s refinancing needs, although it can have recourse to all commonly used capital market instruments if necessary. Another stated aim is to maintain the high level of deposits following their consistent growth in recent years, and to maintain a widely diversified refinancing structure.

St. Pölten, 21 February 2020
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 2019
IN ACCORDANCE WITH IFRS

HYPO NOE Landesbank für Niederösterreich und Wien AG

Part II: HYPO NOE GROUP ANNUAL REPORT

1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit or loss (EUR '000)	(Notes)	2019	2018
Interest and similar income not measured using the effective interest method		206,768	218,442
Interest and similar income measured using the effective interest method		244,828	240,769
Interest and similar expense		-333,912	-347,615
Dividend income		226	336
Net interest income	4.2.1	117,910	111,933
Fee and commission income		20,299	17,843
Fee and commission expense		-3,277	-3,052
Net fee and commission income	5.1	17,022	14,791
Net measurement gains		5,049	14,233
Net gains on derecognition of financial assets		79	-
Net gains on financial assets and liabilities	4.2.2	5,128	14,233
Other operating income	5.2	37,423	45,327
Other operating expense	5.2	-23,003	-35,574
Administrative expenses	5.3	-110,067	-112,772
Impairment losses/gains on financial assets – IFRS 9 ECL	4.5.2	-9,514	10,590
Net gains or losses on investments accounted for using the equity method	10.3	2,793	-534
Profit before tax		37,692	47,992
Income tax	7.2	-7,291	-11,548
Profit for the year		30,401	36,444
Non-controlling interests	3.2	-371	-72
Profit attributable to owners of the parent		30,030	36,372

Other comprehensive income (EUR '000)	(Notes)	2019	2018
Profit for the year		**30,401**	**36,444**
Changes in valuation that will not be reclassified subsequently to profit or loss		**-2,638**	**1,872**
Equity instruments - FVOCI (before tax)	4.3.5	-236	130
Actuarial gains and losses (before tax)	6.2.3	-3,282	2,366
Deferred income tax	7.4	879	-624
Changes in valuation that will be reclassified subsequently to profit or loss		**-4,160**	**-8,296**
Debt instruments - FVOCI (before tax)	4.3.5	-3,811	-11,029
Debt instruments - FVOCI reclassified to profit or loss (before tax)	4.3.5	-1,742	-
Hedges (hedge accounting) (before tax)	4.6.3	6	-103
Exchange differences on translating foreign operations accounted for using the equity method (before tax)		-	70
Deferred income tax	7.4	1,387	2,765
Other comprehensive income		-6,798	-6,423
Total comprehensive income		23,603	30,021
Non-controlling interests	3.2	-371	-72
Comprehensive income attributable to owners of the parent		23,232	29,949

2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets (EUR '000)	(Notes)	31 Dec. 2019	31 Dec. 2018
Cash and balances at central banks	4.3.2	235,481	417,130
Financial assets - HFT	4.3.3	438,035	428,983
Financial assets - mandatorily FVTPL	4.3.4	224,413	262,475
Financial assets - FVOCI	4.3.5	620,063	760,216
Financial assets - AC	4.3.6	12,417,093	11,640,675
Positive fair value of hedges (hedge accounting)	4.6.3	436,278	377,134
Investments accounted for using the equity method	10.3	27,510	23,148
Investment property	6.1	38,235	39,608
Intangible assets	6.1	463	755
Property, plant and equipment	6.1	68,201	66,779
Current tax assets	7.4	26,319	12,147
Deferred tax assets	7.4	1,162	-
Other assets	6.3	38,507	31,013
Total assets		14,571,762	14,060,065

Equity and liabilities (EUR '000)	(Notes)	31 Dec. 2019	31 Dec. 2018
Financial liabilities - HFT	4.4.1	406,606	391,428
Financial liabilities - FVO	4.4.2	4,432	3,500
Financial liabilities - AC	4.4.3	12,522,091	12,106,624
Negative fair value of hedges (hedge accounting)	4.6.3	767,441	665,173
Provisions	6.2.2	68,270	58,711
Current tax liabilities	7.4	6,034	13,574
Deferred tax liabilities	7.4	26,238	27,696
Other liabilities	6.3	85,695	128,507
Subordinated capital	4.4.4	1,453	1,453
Equity	3.1	683,502	663,398
Equity attributable to owners of the parent	3.1	675,087	655,420
Non-controlling interests	3.2	8,415	7,978
Total equity and liabilities		14,571,762	14,060,065

3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

31 Dec. 2018, EUR '000	Balance at 31 Dec. 2017 (IAS 39)	IFRS 9 remeasurement	Balance at 1 Jan. 2018 (IFRS 9)	Profit for the year	Dividends paid	Other comprehensive income	Other changes*	Balance at 31 Dec. 2018
Share capital	51,981	-	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	191,824	-	-	-	-	191,824
Retained earnings	381,321	-15,953	365,368	36,372	-3,500	-	-	398,240
Other reserves composed of:								
Actuarial gains and losses	-5,191	-	-5,191	-	-	1,775	-	-3,416
Available-for-sale financial instruments	47,010	-47,010	N/A	N/A	N/A	N/A	N/A	N/A
Debt instruments - FVOCI	N/A	24,153	24,153	-	-	-8,272	-	15,881
Equity instruments - FVOCI	N/A	889	889	-	-	98	-	987
Hedges (hedge accounting) (before tax)	N/A	-	-	-	-	-77	-	-77
Currency translation	-53	-	-53	-	-	53	-	-
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	666,891	-37,920	628,971	36,372	-3,500	-6,423	-	655,421
Non-controlling interests	8,385	-6	8,379	72	-472	-	-	7,978
EQUITY	675,276	-37,926	637,350	36,444	-3,972	-6,423	-	663,399

*"Other changes" includes the effects of a transaction related to a change in minority interests.

4 CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	31 Dec. 2019	31 Dec. 2018
Profit for the year	30,401	36,444
Non-cash changes and non-cash components attributable to assets and liabilities due to operating activities recognised in profit before tax		
Amortisation, depreciation, impairment and write-ups on property, plant and equipment, intangible assets and investment property	6,467	6,475
Allocations to and reversals of provisions and risk provisions	20,427	8,639
Net losses on disposal of financial assets and property, plant and equipment	-431	-8,317
Net measurement losses on financial assets and liabilities	-5,049	-13,652
Change in positive and negative fair value of hedging instruments	42,161	-11,551
Other adjustments	-6,465	2,425
Changes in assets and liabilities due to operating activities after adjustments for non-cash components		
Financial assets – AC	-768,629	-75,380
Financial assets – mandatorily FVTPL	44,702	113,410
Financial assets – FVOCI	137,730	88,546
Other operating assets	-29,190	15,904
Financial liabilities – AC	412,709	-188,735
Other operating liabilities	-58,177	-15,671
CASH FLOWS FROM OPERATING ACTIVITIES	-173,344	-41,463
Proceeds from sale of/redemption of:		
Equity investments	667	-
Property, plant and equipment, intangible assets and investment property	298	235
Purchase of:		
Equity investments	-2,409	-108
Property, plant and equipment, intangible assets and investment property	-2,882	-2,397
Proceeds from disposal of subsidiaries	**151**	**8,641**
CASH FLOWS FROM INVESTING ACTIVITIES	-4,175	6,370
Dividends paid	-3,500	-3,972
Repayment of lease liabilities	-630	N/A
CASH FLOWS FROM FINANCING ACTIVITIES	-4,130	-3,972
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	417,130	456,197
Cash flows from operating activities	-173,344	-41,463
Cash flows from investing activities	-4,175	6,370
Cash flows from financing activities	-4,130	-3,972
Effect of exchange rate changes on cash and cash equivalents	-	-2
CASH AND CASH EQUIVALENTS AT END OF PERIOD	235,481	417,130
PAYMENTS FOR TAXES, INTEREST AND DIVIDENDS (included in cash flows from operating activities)		
Income taxes refunded/paid	-25,027	-2,835
Interest received	451,597	474,636
Interest paid	-333,912	-362,246
Dividends on FVOCI investments received	226	336
Dividends on FVTPL investments received	-	234
Dividends received from associates	707	482
Dividends received from joint ventures	160	167

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019
IN ACCORDANCE WITH IFRS

HYPO NOE Landesbank für Niederösterreich und Wien AG

Part II: HYPO NOE GROUP ANNUAL REPORT

1 GENERAL INFORMATION

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

The Management Board approved the consolidated financial statements for publication on 21 February 2020.

1.1. Accounting standards

The consolidated financial statements of the HYPO NOE Landesbank für Niederösterreich und Wien AG Group (the HYPO NOE Group) for the year ended 31 December 2019 were drawn up in accordance with section 245a Unternehmensgesetzbuch (Austrian Business Code) and section 59a Bankwesengesetz (Banking Act), as well as Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, and prepared on the basis of the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), as well as the interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC). These financial statements have been prepared in accordance with the IFRS/IAS standards and interpretations thereof adopted and published by the European Union, and applicable to the business activities of the HYPO NOE Group.

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2019 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. The table below provides an overview.

Significant accounting policies	Note	IFRS
Consolidated statement of cash flows	9	IAS 7
Financial instruments I – classification and measurement	4	IFRS 9, IFRS 7, IAS 32
Financial instruments II – loss allowances	4.5.1	IFRS 9, IFRS 7
Financial instruments III – hedge accounting	4.6.1	IFRS 9, IFRS 7
Net interest income	4.2.1	IAS 1
Fair value disclosures	4.7	IFRS 9, IFRS 7, IFRS 13
Provisions	6.2.1	IAS 19, IAS 37
Taxes	7.1	IAS 12
Net fee and commission income	5.1	IFRS 15
Investment property	6.1	IAS 40
Leasing	11.1	IFRS 16
Intangible assets and property, plant and equipment	6.1	IAS 38, IAS 16
Interests in subsidiaries, associates and joint ventures	10.2	IAS 28, IFRS 10, IFRS 11, IFRS 12
Impairment of non-financial assets	10.4	IAS 36

1.3 Estimation uncertainty and judgements

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

Estimates and assumptions were applied in particular to the following:

- Measuring financial instruments, associates and joint ventures
- Determining impairment losses and gains on financial assets
- Defining default
- Performing SPPI tests
- Establishing principles for the transfer of financial instruments (stage transfer)
- Assessing inclusion in the scope of consolidation
- Recognising deferred tax assets attributable to tax loss carryforwards
- Determining fair values
- Determining the useful lives of intangible assets, right-of-use assets, and property, plant and equipment
- Evaluating the effect of first-time application of new accounting standards
- Recognising and measuring provisions

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

1.4 New and amended standards

New and amended standards	Applicable from		Effect
IFRS 16 Leases	1 Jan. 2019		See details
Annual Improvements to IFRS Standards, 2015-2017 Cycle	1 Jan. 2019		None
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 Jan. 2019		None
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 Jan. 2019		None
IFRIC 23 Uncertainty over Income Tax Treatments	1 Jan. 2019		None
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 Jan. 2019		Immaterial
New and amended standards adopted, but not yet applied			
Definition of Material – Amendments to IAS 1 and IAS 8	1 Jan. 2020		See details
IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	1 Jan. 2020	*	See details
Amendments to References to the Conceptual Framework in IFRS Standards	1 Jan. 2020		None
Amendments to IFRS 3 Business Combinations	1 Jan. 2020	*	None
IFRS 17 Insurance Contracts	1 Jan. 2021	*	None

*Mandatory application not yet endorsed by the EU

IFRS 16 Leases

This standard supersedes the previous standards on leases (IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). The Group has applied IFRS 16 since 1 January 2019, using the modified retrospective approach. The figures for the comparative periods have not been adjusted.

Reconciliation of obligations under operating leases with IFRS 16

EUR '000	
Operating lease obligations as at 31 Dec. 2018	10,711
Discounted using the incremental borrowing rate of interest as at the time of initial application of IFRS 16	10,592
less short-term leases recognised as expense on a linear basis	-5,975
less leases for low-value assets recognised as expense on a linear basis	-45
less other adjustments	-1,378
Lease liabilities reported as at 1 Jan. 2019	**3,194**
Short-term lease liabilities	
	624
Long-term lease liabilities	2,570

Right-of-use assets

EUR '000	31 Dec. 2019	31 Dec. 2018
Land and buildings	2,225	2,551
Vehicles	80	144
Parking spaces	175	186
IT and office equipment	29	44
Other	215	269
Total	**2,725**	**3,194**

The lessee's weighted average incremental borrowing rate of interest applied to lease liabilities as at 1 January 2019 was 0.22%. On initial application of IFRS 16, the Group made use of the following relief:

- The contracts were not reassessed to ascertain whether an agreement constitutes or includes a lease agreement
- Lease expenses with terms of less than 12 months are reported as expenses for short-term lease agreements
- In the process of applying IFRS 16, the Group decided not to apply the new regulations to lease agreements that will terminate within 12 months of first-time application, or to lease agreements under which the value of the underlying asset is less than USD 5,000, in accordance with paragraph BC100 of the Basis for Conclusions on IFRS 16 Leases
- The lease and non-lease components of vehicle leasing agreements may not be accounted for separately

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

Definition of Material – Amendments to IAS 1 and IAS 8

Application is mandatory from 1 January 2020. It is likely that application will affect the HYPO NOE Group's qualitative assessment of materiality in connection with preparation of the annual financial statements. The 2019 consolidated financial statements were prepared using a new structure and breakdown based on the IASB Disclosure Initiative, in order to advance efforts to ensure more effective and transparent reporting.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

Application is mandatory from 1 January 2020. The euro overnight index average (EONIA) benchmark rate, among others, does not meet the requirements of the EU Benchmarks Regulation, which came into effect on 1 January 2018, and it will therefore be replaced by the new euro short-term rate (€STR). This unsecured overnight refinancing rate for eurozone banks' dealings with financial market participants is 8.5 basis points lower than the EONIA. The clearing houses are due to switch to the new rate in June 2020. The latest assessment suggests that the interest rate benchmark reform will not have a material impact on the HYPO NOE Group.

1.5 Currency translation

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

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

2 SEGMENT INFORMATION

The Bank's segment reporting is in accordance with IFRS 8. The Group's Management Board, as its main decision-making body, receives quarterly information relevant to its duties in the form of segment reports. These contain a statement of profit or loss for each segment, as well as statements of segment assets and liabilities, and accompanying notes.

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. In addition to the quarterly segment reports, the Management Board also receives aggregated monthly figures which support management control of the Group.

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

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

The apportionment 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 (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 the segment information 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 retail business in the operating segments. Equity is reported under the segment liabilities for the Corporate Center.

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 undertaken, as the necessary information is not available in full on a regular basis, and the cost of compiling it would be inordinate relative to any benefits.

Business models applied in segments pursuant to IFRS 9

The HYPO NOE Group has determined the business models applied in its operating segments as required by IFRS 9.

- "Hold to collect" business model
  In principle, the operations of the Public Sector, Real Estate Customers, and Retail and Corporate Customers segments are subject to this business model. Exceptions may arise from portfolio drawdown strategies or planned loan syndications. The holdings of "Financial assets – mandatorily FVTPL" reported under the above segments mainly relate to loans, which are measured at fair value owing to contractual terms that do not meet the SPPI (solely payments of principal and interest) criteria. Sales of loans due to the fact that they are close to maturity or suffer from deteriorating credit ratings are subject to the same rules as those for "hold to collect" securities. The same applies to the limits for intermittent or immaterial sales of loans. Specific portfolios held by Treasury & ALM are assigned to this business model under the nostro strategy.
- "Hold to collect and sell" business model
  This business model applies exclusively to asset portfolios subject to the nostro strategy, which are allocated to the Treasury & ALM segment.

Further information on the business models concerned can be found in Note 4.3.1 Business models and classification.

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

2.1 Public Sector

2.1.1 Public Finance

The Public Finance Department offers bespoke financing solutions for local and regional authorities, public agencies and infrastructure businesses. The geographical focus is on Lower Austria and Vienna. The department also has the strategic objective of winning additional market shares in other Austrian federal states. To this end, the HYPO NOE Group emphasises relationship banking, featuring close customer relationships and quality advice. Great importance is attached to in-service training for customer relationship managers, which is provided in cooperation with partners such as the Lower Austria Community Management Academy and Danube University Krems. With a view to further expanding its local government business, and to maintaining close contact with municipal decision-makers, the HYPO NOE Group was again represented at the annual conference of the Association of Austrian Municipalities, held for the 66th time, in Graz in June 2019.

Funding extended to public authorities during the reporting period mainly related to investments in education (in particular nurseries and schools), administrative facilities, and water supply and wastewater infrastructure. In response to growing demand, the Bank is increasingly offering bespoke structured solutions, alongside traditional forms of public finance. HYPO NOE Leasing is the Group specialist responsible for developing and introducing special financing models – notably leasing, public-private partnership (PPP) and rental-type models, and forfaiting solutions.

2.1.2 Religious Communities, Interest Groups and Agriculture

The department's product portfolio includes finance for the renovation and revitalisation of churches and church buildings, as well as for social and public infrastructure owned by religious institutions, such as care and social centres, and educational, health and tourist facilities. It also offers bespoke financing, investments and time deposits.

2.1.3 Public Loan Management

The Lower Austrian government has mandated the HYPO NOE Group to administer state-subsidised homebuilding loans, and the Bank acts as a contact point for beneficiaries with queries about account management, account balances and repayments. The Group provides efficient, low-cost loan management services for Lower Austrian owner-builders and the many housing cooperatives in the state, which are also entitled to apply for such loans. Besides its loan management function, the HYPO NOE Group handles the administration of many Lower Austrian state grants, such as those to schools and nurseries.

In recent years, the HYPO NOE Group has assisted the State of Lower Austria with the technical and organisational implementation of the large-scale home loan subsidy scheme, which provides funding in the form of direct and guaranteed loans, and now also acts as a point of contact for questions regarding administrative issues from the various banks involved in disbursements. By the end of 2019, 17 tranches of Lower Austria's high-volume home loan subsidy scheme, in the form of state-guaranteed loans, had been processed in 12 tendering rounds.

Public Loan Management currently administers some 154,000 loans under the scheme, and also services various funding bodies owned by the State of Lower Austria. Such services will be rolled out to additional institutions and agencies, with a view to boosting fee and commission income.

2.2 Real Estate Customers segment

2.2.1 Housing Development

The Housing Development Department stands out as a specialist in non-profit housing construction, offering a wide range of products and flexible finance solutions. It also focuses on investment and payments.

Operations in 2019 again centred on the home markets of Lower Austria and Vienna, But the department has also recently been pushing ahead with expansion into Upper Austria, Styria and Tyrol. There is a growing demand for owner-occupied housing, particularly in urban areas, partly as a result of population growth there. Vienna is the federal state with the fastest-growing population, while Lower Austria is mid-table.

Provision of adequate and affordable housing is a central objective of Lower Austria's housing construction and subsidy policy. The State of Lower Austria is playing its part by extending guaranteed bank loans. The Housing Development Department won a state tender to provide a tranche of subsidised financing, which was made particularly attractive for residents thanks to refinancing from the European Investment Bank (EIB). The department will continue to offer tailormade financing solutions by way of conventional mortgages with a view to maintaining the supply of affordable housing in the Group's home and core markets.

2.2.2 Housing and Commercial Property Austria

In the housing finance business – traditionally one of the mainstays of the Group – the Housing and Commercial Property Austria Department provides commercial housing construction finance, and funds real estate and other projects, as well as existing properties (such as rental apartment buildings) which are mainly devoted to meeting housing needs. The department is also responsible for selected commercial properties. Housing and Commercial Property Austria is solely concerned with finance for mortgaged properties in Austria.

The customers are property developers, investors, commercial clients, owners of existing properties, commonhold associations and property management companies. The department also serves private individuals and medical practitioners whose activities and scale point to commercial operations, and who are not subject to the consumer protection legislation.

2.2.3 Real Estate Project Finance

As a specialist in large-scale finance for real estate and property development projects, the Real Estate Project Finance Department's strengths lie in its extensive product range and its ability to offer bespoke finance solutions.

In 2019 the department continued to operate in its target markets – principally Austria, Germany, the Netherlands and the neighbouring CEE region. Lending conditions and limits in Germany are closely watched, and financing projects are only implemented on terms that accord with the HYPO NOE Group's business policies. Germany and the Netherlands are classified as key growth markets due to the robust demand for assets and financing, the strong presence of international investors, the transparent market and legal situation, and the countries' AAA ratings. Increased participation in club deals and syndicated project finance was the main feature of operations during the year. In addition, the HYPO NOE Group acted as a consortium lead manager and arranger. This helped to widen the pool of potential customers and opened up opportunities to generate additional fees and commissions.

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

The department's business model is based on financial solutions for the office, shopping centre, retail park, housing, logistics and city hotel asset classes. This is supplemented by portfolios of mixed-use properties, which greatly diversify risk due to the wide variety of locations and tenants, as well as selective financing of land banks. The department constantly tracks macroeconomic developments and regional property market trends in its foreign target markets.

2.3 Retail and Corporate Customers segment

2.3.1 Retail Customers

The HYPO NOE Group's branches ensure that retail, self-employed and corporate customers in its home Lower Austrian and Viennese markets receive first-class service.

"Finance and housing", "saving and investment" and "accounts and cards" have been designated as the branch network's core competences. The "finance and housing" offerings were further extended, with the emphasis on subsidies. Close cooperation with the State of Lower Austria enables the Group to offer comprehensive support on loans and subsidies, ensuring sound advice and rapid processing. In 2020 the department will continue to pursue the strategy centred on the core housing construction finance product, which was adopted during the reporting period. The major role of housing finance was underscored by the establishment of a financing centre in January 2020, which also served to further raise the external profile of this business.

In 2018 the HYPO NOE Group entered into a successful consumer credit partnership with specialist finance provider TeamBank Österreich. This was another step in the long-term expansion of the HYPO NOE Group's service business, based on its well-tried advisory process. In the "accounts and cards" area, recently introduced account packages which, besides numerous other benefits, in some cases feature comprehensive account and purchase protection, have gained a strong foothold.

A new branch design concept, attuned to the changing conditions on the retail customer market, is being constantly adapted and refined. The new-look Hütteldorf branch opened in September 2019 – the latest step in the modernisation drive launched in October 2018 with the opening of the Stockerau branch. The new design includes spaces for in-depth advice for customers making key life decisions, especially in connection with borrowing and retirement planning. Customers can take care of everyday banking transactions in the self-service foyer. In parallel, the Group has pushed ahead with moves to extend its range of digital services, and customers can take advantage of its fast, modern and individualised internet banking solutions. The HYPO NOE ID app introduced in May 2019 offers customers a more secure login and transfer approval process.

2.3.2 Corporate Customers

This department provides a comprehensive range of services aimed at the Group's corporate customers. It is divided into several customer service teams. Besides a team dedicated to SMEs, there is a group focusing on large corporates, as well as a separate one specialised in structured transactions and product solutions, especially subsidised loans and export finance. Proximity to customers is a key concern. Centres of expertise in St. Pölten and Vienna serve both SMEs and large corporates. The overriding objective is to be an expert, long-term partner to Austrian businesses and to provide sustained support to the regional economy. Building on the Group's solid position in the Lower Austria/Vienna home market, the remaining Austrian federal states and Germany have also been defined as belonging to the core market.

Companies of all sizes can tap the wide-ranging subsidy-related expertise of this specialist structuring and product unit. It arranges project finance, as well as offering structured finance solutions in connection with acquisitions, leveraged buyouts and business successions. Corporate Customers aims to participate in club deals or loan syndicates for major transactions. This year it has also reinforced its export and trade finance support for corporates. To this end, cooperation with Oesterreichische Kontrollbank (OeKB) has been intensified.

Another goal is to increasingly partner companies with their investment activities and – in today's low interest environment – offer tailored securities solutions. Corporate Customers further expanded its operations and continued the effective implementation of its growth strategy in 2019. In line with the Group's digitalisation strategy, a comprehensive upgrade of the electronic banking system (payments) for corporates was carried out in 2019, with the launch of HYPO NOE Business.

In addition, corporate customers have access to HYPO NOE Versicherungsservice GmbH's (HVS) experts, who deal with all aspects of corporate insurance, including occupational pension schemes. Group company HVS acts as an independent broker and advises HYPO NOE Group customers on insurance matters.

2.4 Treasury & ALM

All of the HYPO NOE Group's capital market operations and interbank business are allocated to Treasury & ALM. This includes capital market refinancing, interest rate and liquidity management activities, liquidity buffering, and management of foreign exchange risk. This segment also includes the earnings contributions of the Group's asset liability management (ALM) activities.

From a regulatory point of view, the HYPO NOE Group only maintains a small trading book. Earnings in this segment are thus not materially affected by the trading activities.

2.4.1 Treasury and Funding

The HYPO NOE Group is well positioned in terms of refinancing options and draws its liquidity from conventional capital market transactions and deposits, as well as from standard repo transactions and ECB tenders. It uses its close relationships with development banks as an additional source of funding. The steady growth in deposits from institutional investors underlines the HYPO NOE Group's established reputation as a valued partner.

2.4.2 Nostro

The HYPO NOE Group's nostro investments are a tool for actively managing the liquidity portfolio. In 2019, these mainly included investments in reliable government and covered bonds with an average volume-weighted rating in the order of AA.

2.4.3 ALM

Asset Liability Management (ALM) aims to stabilise both the Bank's and the Group's net interest income, and achieve positive structural contributions against the current backdrop of an extended low-interest period and negative reference rates. It looks to achieve its goals by selectively taking interest rate risk positions on the basis of specified risk/return ratios.

2.5 Real Estate Services segment

The HYPO NOE Group's real estate services business, which comes under the umbrella of HYPO NOE Immobilien Beteiligungsholding GmbH, consists of operating companies HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH. The Group's property companies operate under a single brand, HYPO NOE Immobilien. Together with these Group associates, HYPO NOE Immobilien offers a comprehensive package of services spanning the entire real estate value chain.

The estate agency and property management businesses were disposed of during the first half of 2019 in the course of a strategic realignment of this area.

Several Austrian HYPO NOE First Facility GmbH offices relocated to the new headquarters in Vienna's 22nd district and merged. Certified according to the ISO 9001:2015 quality management and ISO 14001:2015 environmental management standards, the company is tightening its focus on serving flagship companies in Lower Austria and Vienna, as well as the public sector.

HYPO NOE Real Consult specialises in construction management for special-purpose properties and is aiming to expand its operations through its involvement in town centre development projects.

Real Estate Services' product portfolio is supplemented by its stake in property developer NOE Immobilien Development GmbH (NID).

2.6 Corporate Center

The Corporate Center segment serves to reconcile the operating segments' results with the consolidated totals. It is used for consolidation entries, as well as activities and ancillary services that are not attributable to any other segment and are immaterial, and therefore do not constitute reportable segments in their own right.

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

Earnings and expenses related to interests managed by the investment management unit are not directly apportioned to any operating segment and are thus also allocated to the Corporate Center. The businesses concerned include EWU Wohnbau Unternehmensbeteiligungs-GmbH (EWU), Niederösterreichische Vorsorgekasse AG and Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.

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

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

- Cost of cash collaterals for customer derivatives in the absence of collateral agreements
  Where customer derivatives are not secured by collateral agreements, the HYPO NOE Group does not receive collateral from customers but must post cash collaterals with the hedging partners. Liquidity costs are incurred when refinancing these collaterals. Treasury & ALM is responsible for managing all collateral positions; however, the refinancing costs attributable to the aforementioned positions are allocated to the Corporate Center. Collateral requirements for future customer derivatives will be met by means of pricing or collateral agreements with customers, and are therefore not included in this asymmetric allocation.
- 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. Details are given in Note 6.2 Provisions.
- An internal transfer pricing arrangement between the Retail and Corporate Customers and Corporate Center segments was introduced in 2019. It compensates the Retail and Corporate Customers segment for services provided to internal customers. This also led to a change in the composition of the reportable segments. The

Group restated its segment information accordingly, as required by paragraph 29 IFRS 8, with effect from 31 December 2018.

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

31 Dec. 2018, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Group
Net interest income	36,174	24,501	36,136	23,182	189	-8,248	111,933
Net fee and commission income	3,125	1,063	11,663	-1,055	-2	-3	14,791
Net gains or losses on financial assets and liabilities	-652	-466	337	1,414	-3	13,603	14,233
Net other operating income	5,559	3,653	1,949	1,969	20,412	-23,789	9,752
Net gains or losses on investments accounted for using the equity method	-231	-	-	-	-565	262	-534
Administrative expenses	-25,560	-11,973	-46,143	-15,832	-12,734	-531	-112,772
Impairment losses or gains on financial assets – IFRS 9, ECL	468	4,333	5,596	73	120	-	10,590
Profit before tax	18,883	21,111	9,538	9,752	7,416	-18,708	47,992
Income tax							-11,548
Profit for the year							36,444
Segment assets	7,540,150	1,610,080	1,771,099	2,973,474	47,220	118,043	14,060,065
Segment liabilities	1,998,167	268,792	2,174,013	8,854,483	6,023	758,588	14,060,065

2.7 Segment reports

2.7.1 Public Sector

The Public Sector segment is the largest in the Group and holds over 50% of its total assets. The volume of the segment's assets remained virtually unchanged during 2019. The HYPO NOE Group has a strong track record of implementing education and health sector projects, and during 2019 won contracts for the construction of education campuses in Vienna's Seestadt Aspern and the city's third district, both in the form of PPPs. Both sites will include kindergartens and various school types, for totals of 1,100 children. The segment also completed further leasing projects, such as the Landesklinikum Mauer hospital. Performance was strong in both conventional local authority lending and the structured infrastructure finance business during the reporting period.

On the refinancing side, there was a significant upturn in fixed-term deposits.

In spite of the pressure on margins, net interest income in the segment's low-risk business lines remained steady, and net fee and commission income held firm.

The EUR 1.5m year-on-year deterioration in net gains or losses on financial assets and liabilities was mainly driven by the measurement effects of CVA and OIS Euribor discounting and modification gains or losses. All the customer derivatives have economic hedges.

The Public Sector segment has a business relationship with a major customer in the meaning of paragraph 34 IFRS 8. The customer in question is a public authority, and the services provided to it largely comprise leases, as well as lending and deposit taking. Dealings with this customer and its allocable group entities, in accordance with the definition of major investments and without recourse to the exemption for sub-groups, generated net interest income of EUR 21.8m. This figure is made up of EUR 7.2m from direct business relationships with the customer, EUR 3.7m from direct business relationships with allocable group members, and EUR 10.9m from indirect business relationships in the form of lease refinancing.

2.7.2 Real Estate Customers segment

There was a sharp increase in the level of funding provided to non-profit housing associations in 2019, which was partly due to the award of a contract from the State of Lower Austria to provide a tranche of subsidised financing. The Housing and Commercial Property Austria department and the real estate project business both recorded increases in financing volumes. The prime focus was on earnings potential and achieving a balanced risk profile. The segment's growth was reflected in the rise in "Net interest income".

The fluctuations in segment "Net gains or losses on financial assets and liabilities" mainly stem from the fair value measurement of loans required by IFRS 9 when the interest rate conditions are detrimental to SPPI (principally UDRB loans).

The fall in "Net other operating income" was due to a drop in penalties for early repayments as compared with 2018. This reduction in early repayments helped to stabilise income, which will provide strong foundations for future earnings growth.

2.7.3 Retail and Corporate Customers segment

In line with its targeted, long-term growth strategy, the Retail and Corporate Customers segment again reported increases in "Net interest income" and "Net fee and commission income" in 2019. This was an extremely pleasing result in view of the fierce competition and low market interest rates.

An internal transfer pricing arrangement between the Retail and Corporate Customers and Corporate Center segments was introduced during the reporting period. This is reported under "Net other operating income" (2019: EUR 1.1m; 2018: EUR 0.9m). The arrangement compensates the Retail and Corporate Customers segment for services provided to internal customers. It also brought about a change in the composition of the reportable segments, and the segment information was restated accordingly, as required by paragraph 29 IFRS 8, with effect from 31 December 2018.

Alongside this strong earnings performance, the segment also optimised its costs. This led to a marked year-on-year increase in earnings before risk provisions ("Impairment losses/gains on financial assets – IFRS 9, ECL").

2.7.4 Treasury & ALM

In the first half of 2019, lively issuance on the international capital markets again set the tone in the Treasury & ALM segment. The HYPO NOE Group used the favourable market environment to step up activity in the unsecured private placement segment. The majority of the planned unsecured market funding for 2019 was wrapped up early in the year. This included the flotation in May 2019 of a CHF 100m, 5.5-year senior preferred benchmark bond, which was quickly fully subscribed. After eurozone interest rates dropped to an all-time low during the summer, lively issuance on the international markets returned in mid-September. The Group took advantage of this window of opportunity to issue a seven-year, EUR 500m benchmark bond from the public sector cover pool in late September. In spite of a negative reoffer yield, the granular, high-quality order book amounted to EUR 730m from 38 investors, excluding the lead manager.

Thanks to successful issuance activities during the reporting period and the segment's far-sighted interest rate risk stance, based on strict risk limits, Treasury & ALM's net interest income held steady. Performance was highly satisfactory in light of a challenging interest rate environment.

The net losses on hedges (see Note 4.6.3 Detailed information on hedge accounting) were offset by gains on financial instruments measured at fair value owing to interest rate conditions detrimental to SPPI, in accordance with IFRS 9, and by earnings from the recycling of the FVOCI portfolio (sales of EUR 1.7m), held pursuant to IFRS 9 under the "hold to collect and sell" business model. Both of these gains are reported under "Net gains or losses on financial assets and liabilities". The earnings contribution from this item was up slightly year on year.

2.7.5 Real Estate Services segment

The outstanding result returned by the Real Estate Services segment in the comparative period was due to the disposal of a property, which raised EUR 8.4m. If this one-off effect is stripped out of "Net other operating income" it becomes clear that underlying profitability improved in comparison to the previous period.

The increase in "Net gains on investments accounted for using the equity method", which was mainly due to the contribution of NOE Immobilien Development GmbH (NID), also had a positive impact.

2.7.6 Corporate Center

"Net interest income" in the Corporate Center in 2019 includes asymmetrical allocations relating to collateral costs of EUR 4.1m (2018: EUR 4.3m), as well as negative interest of EUR 2.3m (2018: EUR 3.2m) on consumer loans for the current financial year.

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

"Net gains on financial assets and liabilities" of EUR 3.7m (2018: EUR 13.6m) were chiefly attributable to measurement of the HETA contingent additional purchase price. Details can be found in Notes 4.2.2 Net gains or losses on financial assets and liabilities and 4.7 Fair value disclosures.

"Net other operating income" in the Corporate Center segment includes specific material earnings from prior periods and non-recurring income and expenses. This is to avoid sending distorted signals to management at segment reporting level. A provision was recognised for negative interest on corporate loans in both 2018 and 2019. Detailed information on this item is provided under Note 6.2 Provisions.

The increase in "Net gains on investments accounted for using the equity method" in the Corporate Center segment owed much to EWU Wohnbau Unternehmensbeteiligungs-GmbH (2019: EUR 0.1m; 2018: net losses of EUR 1.0m) and the improved performance of Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H (2019: EUR 1.0m; 2018: EUR 0.7m). Detailed information on this item is provided under Note 10.3 Investments accounted for using the equity method.

3 EQUITY AND CONSOLIDATED OWN FUNDS

3.1 Equity

As was the case a year earlier, as at 31 December 2019 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 2019 the share capital (issued capital) of HYPO NOE Landesbank für Niederösterreich und Wien AG was also unchanged, at EUR 51,981thsd; it is fully paid-up. Every share confers the right to one vote. In 2019, a dividend of EUR 3,500thsd for 2018 was paid to the owners. This corresponds to a rounded-up dividend yield of EUR 0.49 per share. Management proposes the distribution of a dividend of EUR 3,500thsd for 2019.

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".

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

EUR '000	31 Dec. 2019	31 Dec. 2018
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	6,576	13,375
Retained earnings	424,706	398,240
Equity attributable to owners of the parent	**675,087**	**655,419**
Non-controlling interests	8,415	7,978
Total	683,502	663,398

3.2 Non-controlling interests

An overview of the non-controlling interests is provided below.

EUR '000	2019	2018
FORIS Grundstückvermietungs Gesellschaft m.b.H.	13	17
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-265	15
LITUS Grundstückvermietungs Gesellschaft m.b.H.	18	81
PINUS Grundstückvermietungs Gesellschaft m.b.H.	-129	-
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-20	-24
Adoria Grundstückvermietungs Gesellschaft m.b.H.	-	-16
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-15	26
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	70	-136
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	2	-5
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-45	-30
Total	-371	-72

Financial information relating to (unconsolidated) subsidiaries in which the Group holds non-controlling interests, including the leasing companies, for which the data is aggregated, is shown in the following table. In 2019 there were no non-controlling interests that shared in other comprehensive income.

EUR '000	Subsidiaries with non-controlling interests in the Leasing segment	
	31 Dec. 2019	31 Dec. 2018
Cash and balances at central banks	2,137	-
Financial assets - AC	655,381	569,807
Current tax assets	5	-
Deferred tax assets	998	215
Other assets	17,028	2,049
Total assets	675,548	572,071
Financial liabilities - AC	633,545	529,989
Deferred tax liabilities	5,879	5,604
Other liabilities	13,509	16,384
Subordinated capital	2,907	2,907
Equity	19,709	17,187
Equity attributable to owners of the parent	11,294	9,210
Non-controlling interests	8,415	7,977
Total equity and liabilities	675,548	572,071

Aventin Grundstückverwaltungs Gesellschaft m.b.H distributed no dividends to non-controlling interests in 2019 (2018: EUR 463thsd).

3.3 Reconciliation of equity

EUR '000	31 Dec. 2019	31 Dec. 2018
Equity according to IFRS financial statements	**683,502**	**663,398**
Difference compared to scope of consolidation	727	649
Equity according to full FINREP IFRS	**684,229**	**664,047**
Deferred taxes on untaxed reserves	-3,903	-3,903
Prudent valuation (simplified approach)	-1,620	-1,793
Intangible assets	-446	-719
Ineligible minority interests	-8,415	-7,979
Intrayear earnings/dividends	-3,500	-3,500
Eligible capital	**666,345**	**646,153**

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

- The scope of consolidation in accordance with the CRR is not completely identical to that according to IFRS. In value terms, the most significant effect is the fair value measurement of the interest in Niederösterreichische Vorsorgekasse AG in the CRR accounts, which is higher than that in the IFRS accounts, where the interest is accounted for using the equity method. This is due to application of the thresholds in Article 19(1) CRR.
- Deferred tax liabilities, which comprise 25% of the untaxed liability reserves of EUR 15,612thsd, may not be included in equity, as these reserves will be taxable if they are reversed (Independent Financial Senate appeal decision GZ.RV/1669-W/02 of 2003, and paragraph 95a AFRAC 30) and therefore do not fully satisfy the requirements of Article 26(1) CRR.
- 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) CRR states that intangible assets are a regulatory deduction.
- As the minority interests solely comprise banks, they are not eligible under Article 81(1) CRR.
- The proposed dividend and unaudited interim profits are non-qualifying equity components in accordance with Article 26(2) CRR.

3.4 Consolidated own funds and regulatory capital adequacy requirements

Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR) 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 own funds of the HYPO NOE Group, calculated in accordance with the CRR/CRD IV requirements, are broken down as follows:

EUR '000	CRR/CRD IV 31 Dec. 2019	CRR/CRD IV 31 Dec. 2018
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	531,865	512,118
Retained earnings	417,536	391,791
Other reserves	104,744	104,744
Accumulated comprehensive income	9,585	15,584
Prudential filter: adjustments due to the prudential measurement requirements	-1,620	-1,793
Intangible assets	-446	-719
Common Equity Tier 1 capital	666,345	646,153
Tier 1 capital	**666,345**	**646,153**
Eligible Tier 1 capital	**666,345**	**646,153**
Total eligible capital	**666,345**	**646,153**
Capital requirement	**277,828**	**246,527**
Excess equity	**388,517**	**399,626**
Coverage ratio	239.84%	262.10%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	19.19%	20.97%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR (= fully loaded)	19.19%	20.97%
Total capital ratio in accordance with Art. 92(2)(c) CRR	19.19%	20.97%
Total capital ratio in accordance with Art. 92(2)(c) CRR (= fully loaded)	19.19%	20.97%
Own funds requirement incl. all buffer requirements	13.14%	12.70%

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

EUR '000	CRR/CRD IV 31 Dec. 2019	CRR/CRD IV 31 Dec. 2018
Risk-weighted exposure to credit risk	3,102,800	2,690,759
8% minimum capital requirement	248,224	215,261
Own funds requirement for open currency positions	-	2
Own funds requirement for operational risk	23,263	24,367
Own funds requirement for CVA risk	6,341	6,897
Total own funds requirement	277,828	246,527

The Group's total own funds requirement stood at EUR 277,828thsd as at 31 December 2019 (31 Dec. 2018: EUR 246,527thsd), a year-on-year increase of EUR 31,301thsd or 12.7%. This was mainly due to:

- higher corporate lending and mortgages, which pushed up the own funds requirement by EUR 24,294thsd and was also reflected in the change in "Total assets", particularly the "Financial assets – AC" item, and
- speculative property financing by way of new business in the Real Estate Customers, and Retail and Corporate Customers segments (additional own funds requirement of EUR 10,386thsd). The clarification published by the Financial Market Authority (FMA) on 17 December 2018 regarding the interpretation of several EBA statements on this topic provided clarity with regard to specifically Austrian circumstances, and also permitted the unambiguous allocation of the new business concerned to the correct risk exposure class. No changes were

required in connection with existing business due to realisation being at an advanced stage, and to the suspensive effect of the regulations until 31 December 2020.

In order to increase the resilience of Austrian banks against specific systemic risks, the FMA prescribes additional equity buffers for specifically listed domestic banks, under the *Kapitalpuffer-Verordnung* (Capital Buffer Order), in the form of a CET1 ratio. The original order (Federal Law Gazette II No. 435/2015) has since been amended several times (most recently by Federal Law Gazette II No. 355/2018), without affecting the HYPO NOE Group. Since 1 January 2016 the Group has been obliged to meet an additional Tier 1 capital requirement, equal to 1% of the total risk exposure calculated in accordance with Article 92(3) CRR, as part of the systemic risk buffer arrangements established by section 23d Banking Act.

The phased introduction of the capital conservation buffer in accordance with section 23 Banking Act, in equal steps, began at the start of 2016. After completion in 2019, this represented an additional own funds requirement in the form of Common Equity Tier 1 capital of 2.5% of the total risk exposure, which the Group was obliged to take into account.

Determination of the additional own funds requirement (in the form of Common Equity Tier 1 capital), created by the countercyclical capital buffer stipulated by section 23a Banking Act, also commenced at the beginning of 2016. The calculation basis is the exposures defined in accordance with the Capital Buffer Order.

As at the end of the reporting period, according to information from the European Systemic Risk Board and the Bank for International Settlements, the following countries had buffers of the stated amounts:

- Kingdom of Norway (2.5%)
- Kingdom of Sweden (2.5%)
- Hong Kong Special Administrative Region of the People's Republic of China (2.0%)
- Iceland (1.75%)
- Slovak Republic (1.5%)
- Czech Republic (1.5%)
- Ireland (1.0%)
- Kingdom of Denmark (1.0%)
- Republic of Lithuania (1.0%)
- Ukraine (1.0%)
- Republic of Bulgaria (0.5%)
- French Republic (0.25%)

At various junctures in 2020, the following states will raise their buffer requirements to the percentages stated:

- Iceland (2.0%)
- Kingdom of Denmark (2.0%)
- Slovak Republic (2.0%)
- Czech Republic (2.0%)
- Ukraine (2.0%)
- Republic of Bulgaria (1.0%)
- French Republic (0.5%)

At differing junctures in 2020, the following three states will introduce a countercyclical capital buffer:

- Kingdom of Belgium (0.5%)
- Grand Duchy of Luxembourg (0.25%)
- Federal Republic of Germany (0.25%)

The Group did not experience a major increase in its own funds requirement in 2019 as a result of these buffer requirements (31 Dec. 2019: EUR 1,460thsd or 0.04%; 31 Dec. 2018: EUR 880thsd or 0.03%). Based on the current make-up of the underlying transactions, the announced changes will result in an increase in the own funds requirement of EUR 2,842thsd by year-end 2020, equivalent to around 0.08% of the total risk exposure as at the end of the reporting period.

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 risks due to deficiencies in internal 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: the total SREP capital requirements (TSCR), which is the sum of the capital requirements under Article 92 CRR and others to be specified in more detail by the supervisory authorities; and the overall capital requirements (OCR) – the sum 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 new TSCR requirement of an additional 1.6% of equity set by the FMA (2018: 1.8%). This meant that HYPO NOE Landesbank and the HYPO NOE Group were then required to comply with minimum capital ratios of 5.4% for CET1 capital, 7.2% for Tier 1 capital and 9.6% for total capital.

The Group will continue to pursue the successful growth strategy implemented during the reporting period in 2020. The aim is to maintain a conservative capital profile in order to continue to meet all the regulatory requirements without difficulty in future.

Capital management

Determination of capital requirements and investment opportunities

Management sets out to manage the Company's capital in the interests of its owner by adopting a responsible, value-led approach. The methods primarily used are budget and scenario analysis. Taking the current capital situation as their starting point, these take account of specific economic parameters over a five-year, medium-term planning horizon. Among other things, it is necessary to assess whether the risk-bearing capacity (Pillar II) is conformed to, given the planning assumptions made.

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

The Group's budgeting and medium-term planning takes place in close consultation with all the front 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 on an annual basis and notified to the Supervisory Board.

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

Basel Committee on Banking Supervision (BCBS) Paper 277

The above objectives, methods and processes mean that the HYPO NOE Group 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 2019

No unforeseen capital measures were necessary in 2019. As in the previous reporting periods, most of the profit for the year was retained and used to strengthen the Company's capital base.

4 FINANCIAL INSTRUMENTS AND CREDIT RISK

4.1 Recognition of financial instruments

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

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

Financial instruments that result from the "hold to collect" or "hold to collect and sell" business models are initially recognised at fair value plus transaction costs. All other financial instruments are initially recognised at fair value minus transaction costs.

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

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.

Purchased or originated credit-impaired (POCI) financial instruments are given special treatment under IFRS 9. In this case, the expected cash flows are discounted at the credit-adjusted effective interest rate (CaEIR) and the present value recognised. The change in present value results in an impairment loss or gain on subsequent measurement.

POCI assets generally arise in three ways:

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

No POCI assets held by the HYPO NOE Group were identified either in 2019 or in the previous year.

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

4.2.1 Net interest income

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, while interest on liabilities bearing negative interest rates falls under "Other interest and similar income".

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	2019	2018
Interest and similar income not measured using the effective interest method	**206,768**	**218,442**
Financial assets and liabilities – HFT	89,462	97,105
Financial assets – mandatorily FVTPL	2,321	3,638
Hedges	112,989	115,489
Other interest and similar income	1,996	2,210
Interest and similar income measured using the effective interest method	**244,828**	**240,769**
Financial assets – FVOCI	18,992	22,313
Financial assets – AC	195,358	188,241
Current finance lease income	30,479	30,215
Interest expense	**-333,912**	**-347,615**
Financial assets and liabilities – HFT	-86,582	-94,392
Financial liabilities – AC	-148,521	-151,770
Hedges	-98,734	-101,453
Other interest and similar expense	-68	-
Lease liabilities in accordance with IFRS 16	-6	N/A
Dividend income	**226**	**336**
Total	117,910	111,933

Interest capitalised in accordance with paragraph 26(a) IAS 23 totalled EUR 70thsd (2018: 2,848thsd). The decline is explained by handovers of large construction projects. The average capitalisation rate was 1.32% (2018: 1.05%).

"Net interest income" rose by EUR 5,977thsd year on year to EUR 117,910thsd. This increase came in spite of a further drop in interest rates, with money market rates negative. It was driven by lending business, which expanded during the year. For further details, see the segment report (Note 2 Segment information).

All categories of interest expense fell sharply year on year in 2019. Good refinancing management was the main factor behind falling interest costs. The "Other interest and similar expense" item largely represents interest expense arising from lease transactions, shown here because of first-time adoption of IFRS 16.

The HYPO NOE Group received no dividend income from financial investments derecognised during the reporting period.

4.2.2 Net gains or losses on financial assets and liabilities

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

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

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

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

The impact on earnings of the "Net gains or losses arising from the derecognition of financial assets" item results from substantial contract modifications.

EUR '000	2019	2018
Net measurement gains or losses on:	**5,049**	**14,233**
Disposals	**1,904**	**1,690**
Financial assets - AC	162	-
Financial assets - FVOCI	1,742	1,690
Measurement method	**4,113**	**12,415**
Financial assets - AC	-239	-459
Financial assets - mandatorily FVTPL	6,640	14,735
Financial assets and liabilities - HFT	-1,356	1,639
Financial assets and liabilities - FVO	-932	-3,500
Hedges	**-968**	**128**
Net gains or losses on hedged underlying transactions (fair value hedges)	61,991	-8,710
Net gains or losses on hedges (fair value hedges)	-62,959	8,838
Net gains or losses arising from the derecognition of financial assets	**79**	**-**
Financial assets - FVOCI	79	-
Total	**5,128**	**14,233**

The net gains on disposal of "Financial assets – FVOCI" 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.

The net measurement gains on "Financial assets – mandatorily FVTPL", amounting to EUR 6,640thsd, chiefly arise from remeasurement of the "HETA contingent additional purchase price" and from the fair value loan portfolio ("Financial assets – FVTPL").

There were net losses of EUR 747thsd (2018: EUR 41thsd) on non-substantial modifications. In consequence, the net carrying amount of financial assets affected by non-substantial modifications changed from EUR 38,191thsd (31 Dec. 2018: 15,812thsd) before modifications to EUR 37,444thsd (31 Dec. 2018: EUR 15,770thsd) after them.

The contractual outstanding amount of financial assets written off in 2019 that are subject to execution measures is EUR 14,472thsd (2018: EUR 4,886thsd).

4.3 Financial assets

4.3.1 Business models and classification

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

The Group's business models are as follows:

- "Hold to collect" business model

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

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

- "Hold to collect and sell" business model

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

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

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

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

4.3.2 Cash and balances at central banks

EUR '000	31 Dec. 2019	31 Dec. 2018
Cash on hand	32,187	12,323
Balances at central banks	203,294	404,808
Total	235,481	417,130

4.3.3 Financial assets - HFT

The positive fair value of derivatives held by the Group as economic hedges and not included in hedge accounting is reported under this item. Additional information is given in Note 4.6 Derivatives and hedge accounting.

EUR '000	31 Dec. 2019	31 Dec. 2018
Positive fair value of derivatives held for trading		
Positive fair value of interest rate derivatives	415,952	413,671
Positive fair value of foreign exchange derivatives	22,083	15,312
Total	438,035	428,983

4.3.4 Financial assets - mandatorily FVTPL

This category comprises 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.

EUR '000	31 Dec. 2019	31 Dec. 2018
Loans	**134,353**	**162,414**
General governments	3,416	4,240
Other financial corporations	2,229	2,260
Non-financial corporations	91,902	111,268
Households	36,806	44,646
Bonds	**90,060**	**100,062**
General governments	46,091	42,694
Banks	33,782	47,184
Other financial corporations	10,187	10,184
Total	224,413	262,475

The HETA contingent additional purchase price is included in the bonds, under "General governments".

4.3.5 Financial assets – FVOCI

This category comprises debt instruments attributed to the "hold to collect and sell" business model. It also includes equity instruments that are financial instruments as defined by IFRS 9. Measurement is at fair value and the amount is not recognised in profit or loss.

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.

EUR '000	31 Dec. 2019	31 Dec. 2018
Bonds	**617,448**	**756,705**
General governments	457,991	522,394
Banks	147,330	222,115
Other financial corporations	10,070	10,137
Non-financial corporations	2,057	2,059
Equity instruments	**2,615**	**3,511**
Banks	808	792
Other financial corporations	1	1
Non-financial corporations	1,806	2,718
Total	620,063	760,216

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

Company name	Interest	Fair value 31 Dec. 2019	Fair value 31 Dec. 2018
Equity instruments		**2,615**	**3,511**
NÖ Bürgschaften und Beteiligungen GmbH	5.82%	982	982
PVP I Beteiligungs-Invest AG (under resolution)	16.45%	-	667
Hypo-Wohnbaubank Aktiengesellschaft	12.50%	808	792
Hypo-Banken-Holding Gesellschaft m.b.H.	12.50%	462	788
Total		2,615	3,510

4.3.6 Financial assets – AC

This category includes non-derivative financial assets assigned to the "hold to collect" business model, where the cash flows solely represent payments of principal and interest.

Measurement is at amortised cost, less impairment in accordance with paragraph 5.5. IFRS 9 (for detailed information, see Note 4.5 Credit risk und 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.

EUR '000	31 Dec. 2019	31 Dec. 2018
Loans	**11,461,809**	**10,892,962**
General governments	4,237,236	4,371,430
Banks	685,015	644,825
Other financial corporations	294,676	209,427
Non-financial corporations	4,135,576	3,690,180
Households	2,109,306	1,977,101
Bonds	**955,284**	**747,713**
General governments	514,236	474,842
Banks	380,248	211,346
Other financial corporations	31,224	37,874
Non-financial corporations	29,575	23,651
Total	12,417,093	11,640,675

4.3.7 Transfer of financial assets

The following table shows the carrying amounts of financial assets that have been transferred but not derecognised.

	31 Dec. 2019		31 Dec. 2018	
EUR '000	Transferred assets	Related liabilities	Transferred assets	Related liabilities
Financial assets - FVOCI	**284,599**	**85,138**	**251,352**	**120,029**
Bonds	284,599	85,138	251,352	120,029
Financial assets - AC	**871,406**	**276,194**	**701,897**	**253,932**
Bonds	307,941	69,742	156,912	68,432
Loans	563,465	206,452	544,986	185,500
Total	1,156,005	361,332	953,249	373,961

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

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

4.3.8 Analysis of financial assets by maturities

EUR '000	31 Dec. 2019	31 Dec. 2018
Financial assets – HFT		
Up to 3 months	123	7
3 months to 1 year	715	771
From 1 to 5 years	26,120	20,678
Over 5 years	411,078	407,527
Total	**438,035**	**428,983**
Financial assets – mandatorily FVTPL		
Repayable on demand	2,928	2,622
Up to 3 months	22,841	1,279
3 months to 1 year	29,279	23,044
From 1 to 5 years	92,404	100,163
Over 5 years	76,962	135,367
Total	**224,413**	**262,475**
Financial assets – FVOCI		
Repayable on demand or no fixed term	2,615	3,510
Up to 3 months	37,061	69,273
3 months to 1 year	52,767	51,401
From 1 to 5 years	306,336	339,005
Over 5 years	221,284	297,027
Total	**620,063**	**760,216**
Financial assets – AC		
Repayable on demand	77,928	163,693
Up to 3 months	265,668	293,895
3 months to 1 year	1,034,143	887,432
From 1 to 5 years	3,718,832	3,418,450
Over 5 years	7,320,521	6,877,205
Total	**12,417,093**	**11,640,675**
Positive fair value of derivatives (hedge accounting)		
Up to 3 months	613	1,354
3 months to 1 year	17,134	13,046
From 1 to 5 years	106,870	130,481
Over 5 years	311,661	232,253
Total	**436,278**	**377,134**
Other assets		
Repayable on demand or no fixed term	4,319	11,269
Up to 3 months	24,162	10,157
3 months to 1 year	860	968
From 1 to 5 years	3,406	2,740
Over 5 years	5,759	5,880
Total	**38,507**	**31,013**

4.4 Financial liabilities

4.4.1 Financial liabilities – HFT

The negative fair value of derivatives held by the Group as economic hedges but not included in hedge accounting is reported under this item. Additional information is given in Note 4.6 Derivatives and hedge accounting.

EUR '000	31 Dec. 2019	31 Dec. 2018
Negative fair value of derivatives held for trading		
Negative fair value of interest rate derivatives	384,718	376,239
Negative fair value of foreign exchange derivatives	21,889	15,189
Total	406,606	391,428

4.4.2 Financial liabilities – FVO

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

This item consists of a liability related to the HETA contingent additional purchase price, which the Group designated as measured at fair value through profit or loss in accordance with paragraph 4.2.2 IFRS 9 so as to avoid measurement and recognition inconsistencies (accounting mismatches) with regard to the financial assets concerned (see Note 4.3.4 Financial assets – mandatorily FVTPL). Details are given in Note 4.7 Fair value disclosures.

4.4.3 Financial liabilities – AC

This category comprises the financial liabilities, including bonds in issue, for which the option of measurement at fair value through profit or loss was not taken.

"Financial liabilities – AC" must be assessed to identify embedded derivatives requiring separation from the host contract. Separation is mandatory for this category if the contractual terms for the embedded structure meet the definition of a derivative, and if the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract. There were no structures requiring separation as at 31 December 2019.

"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.

EUR '000	31 Dec. 2019	31 Dec. 2018
Savings deposits	805,491	872,853
Deposits	**4,069,398**	**3,610,437**
Banks	705,596	1,054,574
General governments	1,236,316	728,224
Other financial corporations	752,906	585,032
Non-financial corporations	562,681	535,214
Households	811,899	707,393
Bonds in issue	**7,647,201**	**7,623,334**
Covered bonds	1,140,847	1,130,105
Municipal bonds	4,050,800	4,103,536
Other bonds	2,455,554	2,389,693
Total	12,522,091	12,106,624

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

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

31 Dec. 2018, EUR '000	Coverage required for bonds in issue	Coverage of:		Surplus coverage
		Loans	Securities	
Covered bonds	1,131,953	1,642,526	24,206	534,778
Public sector covered bonds	3,914,606	4,333,982	138,526	557,901
Total	5,046,560	5,976,507	162,732	1,092,680

4.4.4 Subordinated capital

EUR '000	31 Dec. 2019	31 Dec. 2018
Subordinated capital	1,453	1,453
Contributions by silent partners	1,453	1,453

This category includes a contribution to a subsidiary of the HYPO NOE Group (Aventin Grundstückverwaltungs Gesellschaft m.b.H.) from a silent partner with a minimum return independent of earnings of EUR 65thsd (2018: EUR 65thsd).

4.4.5 Analysis of financial liabilities by maturities

EUR '000	31 Dec. 2019	31 Dec. 2018
Financial liabilities – HFT		
Up to 3 months	1,636	716
3 months to 1 year	1,186	735
From 1 to 5 years	26,308	22,396
Over 5 years	377,476	367,581
Total	**406,606**	**391,428**
Financial liabilities – FVO		
From 1 to 5 years	4,432	3,500
Total	**4,432**	**3,500**
Financial liabilities – AC		
Repayable on demand or no fixed term	1,935,321	1,706,482
Up to 3 months	340,225	600,555
3 months to 1 year	2,579,403	2,132,568
From 1 to 5 years	3,713,162	4,633,936
Over 5 years	3,953,979	3,033,082
Total	**12,522,091**	**12,106,624**
Negative fair value of hedges (hedge accounting)		
Up to 3 months	2,099	2,510
3 months to 1 year	3,357	3,045
From 1 to 5 years	63,841	48,721
Over 5 years	698,144	610,897
Total	**767,441**	**665,173**
Other liabilities		
Repayable on demand or no fixed term	6,617	2,252
Up to 3 months	19,501	25,590
3 months to 1 year	26,997	32,438
From 1 to 5 years	27,539	61,960
Over 5 years	5,041	6,267
Total	**85,695**	**128,507**
Subordinated capital		
From 1 to 5 years	1,453	1,453
Total	**1,453**	**1,453**

4.5 Credit risk und risk provisions

4.5.1 Accounting policies for risk provisions

The impairment rules set out in paragraph 5.5 IFRS 9 cover the following items:

- Financial assets – FVOCI
- Financial assets – AC
- Lease receivables
- Trade receivables with finance elements
- Loan commitments and financial guarantees

Under the general impairment model, risk provisions usually cater for the expected credit losses over the lifetime or residual maturity of an asset, with the exception of the following items, for which 12-month expected credit losses are recognised in profit or loss:

- Financial assets for which there has not been a significant increase in credit risk since initial recognition (Stage 1)
- Financial assets with a low credit risk as at the reporting date, in accordance with paragraph 5.5.10 IFRS 9 (low credit risk exemption)

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

For Stage 1 financial instruments, 12-month credit losses are calculated on the basis of the 12-month probability of default (PD), exposure at default (EAD), loss given default (LGD) for the collateralised and uncollateralised parts of the instrument, and the credit conversion factor (CCF) for off-balance-sheet items.

If significant increases in credit risk have not been identified since initial recognition of the financial instrument concerned, it stays at Stage 1. In the HYPO NOE Group only transactions where there is a low risk of default are assigned to rating class 1 ("low credit risk exemption"). As soon as the rating deteriorates 1 (i.e. between 2A and 5E), the qualitative or quantitative triggers summarised below can induce a transfer to Stage 2 or, in the event of default, lead to allocation to Stage 3.

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

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

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

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, then 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 class of risk exposure, 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 risk exposure class and rating. The staging factor threshold determined on the basis of the risk exposure class, lifetime and residual maturity is compared with the current staging factor (the rate of change in the PD) for each transaction. A stage transfer takes place if the threshold is exceeded.

Qualitative indicators used to determine whether there has been a significant increase in credit risk comprise: forbearance measures; whether payment is 30 days past due; intensive care; customers unrated at the reporting date; and early warning indicators (to the extent that these are not already adequately reflected in the rating). Transfer to a different stage can be initiated by a quantitative or qualitative trigger event.

When calculating impairment losses/gains, credit risk is identified and assessed at regular intervals using quantitative and qualitative rating triggers as described above. Assessment of the need for transfers from Stage 1 to Stage 2 is based both on information about individual items and on indicators estimated at portfolio level. This multi-level perspective on the assessment of significant increases in credit risk ensures that the Group takes account of all information relevant to risk provisioning.

When a trigger event induces a stage transfer, retransfer only takes place if the event in question no longer applies. Normally, there are no good conduct periods at Stage 2, 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.

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 expected credit losses

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

- Exposure at default (EAD)
- Probability of default (PD)
- Loss given default (LGD) for the uncollateralised 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 for the uncollateralised portion, and the value of collaterals by the respective LGD for each collateral. LGD represents the expected loss in the event of default relative to EAD.

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

Financial assets with impaired credit quality (Stage 3)

Financial instruments with impaired credit quality (i.e. in default) in accordance with the definition of default given in Art. 178 CRR are assigned to Stage 3. The following indicators play a particularly important role in determining whether a financial asset exhibits impaired creditworthiness:

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

The following indicators are also applied to corporate loan agreements:

- Acute liquidity bottlenecks
- Termination of credit lines by other lenders
- Request 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

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

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. The automated procedure is used for insignificant customers. The method used is like Stage 2, with the exception that only a monthly allowance is calculated, as the probability of default is 100%.

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

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

The HYPO NOE GROUP has defined the following 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 years and that the realisation of available collateral will only begin after three years. Until that time, no steps are taken to collect the outstanding amount. 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.

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:
    - Retail customers:
      - Six months in the case of monthly repayments
      - Nine months in the case of quarterly repayments
      - 12 months in the case of half-yearly repayments
    - All other customer groups:
      - Two successive 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 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.

Write-offs

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

Rating models

In order to regularly assess customers' creditworthiness, the HYPO NOE Group uses various rating modules, 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. Assignment to customer groups is on the basis of the Basel segments, the industry, the company's legal form and its operating performance. The main inputs for the rating modules are annual financial statements, and details of household budgets, as well as account and customer data (in the case of automated credit ratings).

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

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

Initial rating

Depending on the time of recognition of the transaction, the historic rating tables must be considered 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 revised 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,

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

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

Measurement parameters for the calculation of default risk and expected credit loss

The estimates applied under the HYPO NOE Group's individual measurement parameters correspond to the most probable expected value. This is neither a matter of conservative assumptions nor of extreme values. Internal analyses show that the Group's portfolio contains no significant asymmetries that would lead to a materially different estimate of impairment losses/gains if a number of scenarios were considered. The impairment losses/gains are therefore exclusively calculated on the basis of the most likely scenario. In a multi-scenario analysis, the probabilities of default are estimated for an optimistic and a pessimistic scenario, besides the most likely scenario, and the impairment losses/gains for each scenario are calculated. The results for scenario-weighted impairment losses/gains are then summarised and compared with the impairment losses/gains yielded by the most probable scenario.

Probability of default (PD)

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

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

The lifetime PD curve is derived from a breakdown of the entire portfolio by credit risk factors. The Group distinguishes between the following key risk exposure classes: 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 in 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. Consequently, external data in the public domain are used to generate the TTC PD curves for other risk exposure classes.

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.

Retail risk exposure class

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

Corporates, sovereign and financial institutions risk exposure class

As the Bank does not have sufficient internal data, recourse is made to external data in the public domain. Sovereign default is extremely rare, and time series of empirical default rates are not available. By their nature, migration matrixes are based not just on pure default data but also on all changes in the ratings of the customers under observation. 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 was 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 exposure classes. In contrast to sovereigns, sufficient data on one-year default rates are available for these classes. In order to incorporate these data into the estimate as efficiently as possible, a fitting approach was chosen to generate the multi-year PD curves, as this employs empirical default data. Based on the empirical cumulative default rate data, fitting is carried out for corporates and 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. An empirical model is used to analyse the relationships between changes in macroeconomic indicators and the probability of default. The Group has identified such a correlation in the retail and corporates risk exposure classes. Defaults are rare in the other classes, so a connection between PD and macroeconomic developments cannot be demonstrated. The model focuses on identifying the business cycle relevant to defaults and the current position in the cycle. This is represented by a standardised aggregate indicator and is subsequently used to adjust the TTC PDs (PiT adjustment). The most probable PD curve for each risk class is calculated for the PiT adjustment and included in the ECL calculation.

In line with the regional focus of the HYPO NOE Group's lending business, the model uses publicly available, regularly updated forecasts and historical time series from the OeNB as macroeconomic indicators. The HYPO NOE Group has made an appropriate preselection from among the available economic indicators, which includes:

- GDP growth (%)
- Unemployment rate (%)
- GDP per person in gainful employment (labour productivity)

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

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

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

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

LGD for uncollateralised loan portions

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

Owing to the application of a realisation period, the HYPO NOE Group 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 operations of importance to the general public continue smoothly. For this reason, a separate resolution procedure has been developed for financial institutions. This is designed to restore a bank's viability and ability to restructure in the space of a weekend, by converting bail-in debt capital into equity.

LGD for collateralised loan portions

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

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

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 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; the related deterioration in the borrower's solvency makes early repayment unlikely. Indeed, in such cases it can be assumed that the borrower is unable to make early repayment, and because of this the Group does not consider prepayment profiles in Stages 1 and 2.

Instruments with no fixed maturity date

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

Internal rating: the HYPO master scale

For retail customers, the Group currently employs an applications rating procedure together with behaviour rating for ongoing evaluation. Corporate customers are assessed according to different rating instruments for businesses that use accrual accounting, those preparing accounts on a cash basis, and start-ups. In the case of companies using accrual accounting, the appropriate rating module is selected according to operating revenue and the role of risk in transactions with retail customers. There are also separate processes for local authorities and for banks. A separate rating tool is used to evaluate the creditworthiness of commonhold associations under the Wohnungseigentumsgesetz (Home Ownership Act). Other customer categories are currently rated internally in accordance with expert opinions based on analyses of internal and external information.

Internal ratings are generally used to manage credit risks, customer foreign currency risks and investment risks. The number of unrated customers is negligible, and the few such accounts are constantly monitored.

The internal risk management system 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

4.5.1 Detailed information on risk provisions

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	Impairment losses/gains on financial assets – IFRS 9 ECL
Risk provisions, 31 Dec. 2018	-79,130	
Increase due to origination and purchase	-7,166	-7,166
Reduction due to derecognition and substantial modification	2,761	2,761
Utilisation of risk provisions	16,446	-
Allocations and reversals due to changes in credit risk	-10,490	-5,090
Other adjustments (incl. exchange differences)	34	34
Cash and balances at central banks, and trade receivables	-23	-23
Other income and expenses	-	-30
Risk provisions, 31 Dec. 2019	-77,568	-9,514

Stage 1 impairment losses/gains

The following table shows the evolution of the loss allowances for expected losses on "Financial assets – AC" and "Financial assets – FVOCI (debt instruments)", as well as off-balance-sheet transactions recognised under these two items. These loss allowances are measured at an amount equal to the 12-month expected credit losses.

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

31 Dec. 2018, EUR '000	1 Jan. 2018	Origination and purchase	Derecognition/utilisation/substantial modification	Allocations/reversals/stage transfers	Foreign exchange and other changes	31 Dec. 2018
Financial assets – AC	**-8,575**	**-3,637**	**1,788**	**3,063**	**6**	**-7,355**
Loans	-8,359	-3,637	1,788	2,944	6	-7,258
Banks	-28	-25	4	33	8	-8
General governments	-303	-36	39	86	-	-214
Other financial corporations	-157	-202	261	-159	-	-257
Non-financial corporations	-6,409	-2,693	1,208	2,390	-	-5,503
Households	-1,461	-681	276	594	-3	-1,275
Bonds	-216	-	-	118	-	-98
Banks	-39	-	-	-9	-	-48
General governments	-4	-	-	-	-	-3
Other financial corporations	-	-	-	-	-	-
Non-financial corporations	-174	-	-	127	-	-47
Financial assets – FVOCI	**-69**	**-**	**-**	**23**	**-**	**-46**
Bonds	-69	-	-	23	-	-46
Banks	-59	-	-	21	-	-38
General governments	-7	-	-	2	-	-5
Other financial corporations	-1	-	-	-	-	-1
Non-financial corporations	-1	-	-	-	-	-1
Provisions for off-balance-sheet risks						**-879**
Loan commitments and financial guarantee contracts						-879
Total	**-8,644**	**-3,637**	**1,788**	**3,085**	**6**	**-8,281**

Stage 2 impairment losses/gains

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

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

31 Dec. 2018, EUR '000	1 Jan. 2018	Origination and purchase	Derecognition/utilisation/substantial modification	Allocations/reversals/stage transfers	Foreign exchange and other changes	31 Dec. 2018
Financial assets - AC	**-19,073**	**-301**	**1,292**	**1,649**	**-112**	**-16,546**
Loans	-18,506	-301	1,292	1,111	-112	-16,516
Banks	-30	-258	-	283	2	-2
General governments	-1,380	-	5	474	-	-901
Other financial corporations	-361	-	23	319	-	-20
Non-financial corporations	-6,699	-11	833	397	-5	-5,485
Households	-10,036	-32	431	-362	-109	-10,108
Bonds	-567	-	-	537	-	-30
Banks	-14	-	-	14	-	-
General governments	-554	-	-	524	-	-30
Other financial corporations	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-
Financial assets - FVOCI	**-20**	**-**	**-**	**11**	**-**	**-9**
Bonds	-20	-	-	11	-	-9
Banks	-20	-	-	11	-	-9
Provisions for off-balance-sheet risks						**-203**
Loan commitments and financial guarantee contracts						-203
Total	-19,093	-301	1,292	1,659	-112	-16,758

Stage 3 impairment losses/gains

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

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

31 Dec. 2018, EUR '000	1 Jan. 2018	Origination and purchase	Derecognition/utilisation/substantial modification	Allocations/reversals/stage transfers	Foreign exchange and other changes	31 Dec. 2019
Financial assets – AC	**-62,865**	**-335**	**7,643**	**2,293**	**-78**	**-53,342**
Loans	-62,865	-335	7,643	2,293	-78	-53,342
General governments	-5,071	-	-	376	-	-4,695
Non-financial corporations	-40,189	-321	4,248	4,580	-	-31,682
Households	-17,605	-14	3,396	-2,664	-78	-16,965
Provisions for off-balance-sheet risks						**-750**
Loan commitments and financial guarantee contracts						-750
Total	-62,865	-335	7,643	2,293	-78	-54,092

Risk provisions by rating classes

In order to provide a clear overview, the following breakdown of risk provisions also includes amounts for "Cash and balances at central banks" and "Trade receivables"; however, these are not included in the loss allowances for each stage.

	Risk provisions					Gross carrying amount/nominal amount				
EUR '000	31 Dec. 2019				31 Dec. 2018	31 Dec. 2019				31 Dec. 2018
	Stage 1	Stage 2	Stage 3	Total	Total	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances at central banks	**-6**	**-4**	**-**	**-10**	**-**	**235,437**	**55**	**-**	**235,491**	**417,130**
Financial assets - AC	**-9,999**	**-22,302**	**-42,477**	**-74,778**	**-77,243**	**10,949,632**	**1,432,062**	**110,177**	**12,491,871**	**11,717,918**
Loans	-9,836	-12,650	-42,477	-64,963	-77,115	10,027,227	1,389,369	110,177	11,526,772	10,970,077
Rating class 1	-170	-9	-	-179	-144	4,804,544	91,502	-	4,896,046	4,960,034
Rating class 2	-2,923	-652	-	-3,575	-2,097	3,280,633	194,911	-	3,475,544	2,766,700
Rating class 3	-6,141	-9,242	-	-15,382	-16,363	1,885,688	985,412	-	2,871,099	2,904,408
Rating class 4	-602	-2,747	-	-3,349	-5,168	56,362	117,544	-	173,906	223,849
Rating class 5	-	-	-42,477	-42,477	-53,342	-	-	110,177	110,177	115,086
Bonds	-163	-9,652	-	-9,815	-128	922,405	42,693	-	965,099	747,841
Rating class 1	-23	-	-	-23	-11	567,423	-	-	567,423	470,520
Rating class 2	-92	-	-	-92	-90	335,599	-	-	335,599	226,555
Rating class 3	-49	-36	-	-85	-27	19,383	1,851	-	21,234	12,892
Rating class 4	-	-9,616	-	-9,616	-	-	40,842	-	40,842	-
Rating class 5	-	-	-	-	-	-	-	-	-	37,874
Financial assets - FVOCI	**-30**	**-4**	**-**	**-34**	**-55**	**609,730**	**7,751**	**-**	**617,482**	**756,705**
Bonds	-30	-4	-	-34	-55	609,730	7,751	-	617,482	756,705
Rating class 1	-12	-	-	-12	-14	439,090	-	-	439,090	526,325
Rating class 2	-17	-4	-	-21	-42	170,640	7,751	-	178,392	230,381
Provisions for off-balance-sheet risks	**-1,076**	**-268**	**-1,390**	**-2,734**	**-1,832**	**1,758,389**	**127,539**	**4,351**	**1,890,279**	**1,037,729**
Rating class 1	-2	-	-	-2	-3	1,119,427	980	-	1,120,407	486,338
Rating class 2	-140	-15	-	-154	-117	291,011	39,440	-	330,451	277,897
Rating class 3	-840	-156	-	-996	-745	339,432	75,535	-	414,967	256,648
Rating class 4	-95	-97	-	-192	-217	8,519	11,585	-	20,104	13,951
Rating class 5	-	-	-1,390	-1,390	-750	-	-	4,351	4,351	2,895
Trade receivables	**-**	**-13**	**-**	**-13**	**-**	**-**	**4,187**	**-**	**4,187**	**-**
Total	**-11,112**	**-22,590**	**-43,866**	**-77,568**	**-79,130**	**13,553,188**	**1,571,594**	**114,528**	**15,239,310**	**13,512,352**

Disclosures of maturities and collateral

31 Dec. 2019, EUR '000	Not past due	Less than 90 days overdue	90 or more days overdue	Total
Financial assets (Stage 1)	**11,495,252**	**54,081**	**-**	**11,549,334**
AC	10,885,552	54,081	-	10,939,633
FVOCI	609,701	-	-	609,701
Financial assets (Stage 2)	**1,404,209**	**13,299**	**-**	**1,417,507**
AC	1,396,461	13,299	-	1,409,760
FVOCI	7,747	-	-	7,747
Financial assets (Stage 3)	**52,120**	**1,577**	**14,002**	**67,700**
AC	52,120	1,577	14,002	67,700
Financial assets – mandatorily FVTPL	**220,942**	**1,547**	**1,923**	**224,413**
Collateral for assets – AC				**5,841,646**
Secured by mortgages				2,402,002
Loans secured in other ways				54,595
Financial guarantees received				3,385,049
Collateral for assets – mandatorily FVTPL				**101,994**
Secured by mortgages				97,375
Loans secured in other ways				2,244
Financial guarantees received				2,375

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

ECL sensitivity analysis

When calculating the loss allowance, besides historical and current information, forward-looking information derived from forecasts of key macroeconomic factors is also taken into account. The influence of these macroeconomic developments on estimation of the credit losses is reflected by a point-in-time parametrisation of the PDs for the three years after the end of the reporting period. To account for the inherent uncertainty of such forward-looking estimates, alongside the baseline scenario (which corresponds to the expectation that is most likely to be fulfilled) an optimistic and a pessimistic scenario for the evolution of the macroeconomic factors are constructed and the resultant credit losses estimated. Both scenarios were derived from a large number of statistically simulated potential PD scenarios, and neither represents an extreme case. The optimistic scenario reflects the 10% quantile and the pessimistic scenario the 90% quantile of this distribution.

The table below shows a comparison of the expected credit losses on Stage 1 and Stage 2 financial assets, calculated on the basis of the various scenarios.

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

31 Dec. 2018, EUR '000	Optimistic	Baseline	Pessimistic
Risk provisions generated by the fully automated process (Stage 1 and Stage 2)	23,194	25,039	26,326

The fully automated process used for Stage 3 did not generate any significant sensitivities.

4.5.3 Forbearance measures

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.

For forbearance status to be cancelled, the following conditions must be satisfied:

- 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

The principal forbearance measures in 2019 were rescheduling, maturity extensions and refinancing measures.

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, such business is more closely monitored where accounts are more than 30 days in arrears.

These monitoring measures ensure that forborne exposures are classified as non-performing as soon as:

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

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

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

The tables below show the evolution of forborne exposures, as well as analyses by geographical area, rating class and maturity. The presentation includes both forborne instalments and arrears. There were no significant cases of derecognition as a result of forbearance measures in 2019. Most of the reduction was due to repayments. Unlike the NPL portfolio, the tables below include all the assets in respect of which forbearance was shown, even where these measures did not lead to Stage 3 classification at the level of individual exposures.

EUR '000	31 Dec. 2019	31 Dec. 2018
Forborne exposures as at 1 Jan.	**70,138**	**81,558**
Additions (+)	6,138	3,640
Exits (-)	-20,990	-15,060
Forborne exposures as at 31 Dec.	**55,285**	**70,138**
Related interest income from existing receivables recognised in profit or loss	2,050	2,120
Related risk provisions	-7,073	-15,463

Geographical analysis

EUR '000	31 Dec. 2019	31 Dec. 2018
Domestic customers	16,532	21,469
Foreign customers		
CEE	38,753	41,834
Rest of the world	-	6,835
Total	55,285	70,138

Rating class analysis

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

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

Maturity analysis

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

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

4.5.4 Credit risk

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

- Credit 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

The main credit risks to which the HYPO NOE Group is exposed are credit 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.

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

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

- Identifying and regularly evaluating credit risks
- Determining models and processes for measuring identified credit risks, and regularly reviewing their suitability
- Quantifying credit risk using the methods established for this purpose
- Identifying and complying with legislation 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 (credit 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:

Credit risk means the risk of complete or partial loss due to a default or, in lending business, a deterioration in the creditworthiness of the counterparty. Here, 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), 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 Group must conclude a new contract for the remaining maturity at the market price then ruling. If the current price is unfavourable for the bank, this means that costs or losses arise from the replacement transaction. The bank is exposed to counterparty risk throughout the lifetime of the 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 bank's perspective, issuer risk exists from the time of conclusion of the transaction until its termination, and hence over its entire lifetime.

The HYPO NOE Group calculates the capital charge for credit risk (credit 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 credit risk, replacement risk and issuer risk, as part of Pillar 2 of the Internal Capital Adequacy Assessment Process (ICAAP), is derived from the internal ratings-based (IRB) approach set out in Art. 153ff CRR.

IRB approach (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2019	31 Dec. 2018
Credit risk (credit, replacement and issuer risk)	-255,695	-223,411

Credit risk analysis

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

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

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

Another activity of Operating Credit Risk Management is observing early warning signs (to which it is mainly alerted by Credit Services) in order to spot potential problem customers and initiate countermeasures in good time. If early warning signs appear (e.g. political instability or negative stock exchange announcements), a loan may be designated as a "watch loan". In the event of a significant and lasting deterioration in creditworthiness as compared to the time of initial recognition, the customer is also flagged as "intensive care". All watch loan customers are subjected to closer monitoring, and their cases are reviewed by the Problem Loans Committee on a quarterly basis. The committee takes any decisions related to exposure policy. As at 31 December 2019, the volume of designated watch loans and lending subject to intensified service stood at EUR 111.6m (31 Dec. 2018: EUR 74.5m). The increase in the watch loans principally reflects a cured project loan with a large outstanding amount.

Primary responsibility for loans subject to intensive care lies with the front office unit concerned and Operating Credit Risk Management. In certain cases, the Intensive Care Management Department provides support including action plans and attendance at meetings with the customer. The objective 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 elevated risk.

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

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

Country analysis

The outlook for many European economies continued to worsen in the course of 2019. Export industries were the main sufferers, hit by persistent trade and political tensions. Despite slowing export growth and capital investment, once again all 28 EU member states registered positive growth, thanks to robust domestic demand. The rapidly expanding CEE economies contrasted with EU core countries, such as Germany and Italy, which posted growth rates well below the EU average.

The public finances of most EU member states were on the mend, although some European economies have yet to return to pre-crisis levels. The interest burden on exchequers is likely to remain moderate. The risk-reward ratio for sovereign bonds continues to be regarded as distorted due to the effects of monetary policies.

In the banking sector, capital ratios and loan book quality again improved. Credit demand is being buoyed by low interest rates.

Increasing geopolitical tensions and trade barriers, as well as adjustments to the ECB's interest rate and monetary policies are closely watched, especially with regard to potential implications for the HYPO NOE Group's overall portfolio.

Property price trends in individual countries are continually monitored for possible overheating, with high asset balances and sustained high demand taken into account as mitigating factors when assessing risk.

Credit risk monitoring

Risk monitoring at individual customer level is the responsibility of Operating Credit Risk Management, which checks credit ratings, monitors blacklists drawn up by Credit Services, and processes loan applications that potentially entail significant risks. In addition, relationship managers are required to prepare comprehensive reviews of the current situation for each customer when necessary, and at least once a year, irrespective of the amount of the exposure and the credit rating. The reviews are submitted to the managers with the requisite decision-making authority. Customers who attract notice (where this is relevant in terms of risk) are monitored by the Operating Credit Risk Management unit. Where there is a significant deterioration in the risk situation, the exposures are transferred to the specialists in 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 concerned are calculated prior to the next regular ECF process cycle, using the fully automated method, or at the latest during the next quarterly ECF process cycle, using the ECF method. Customers with 5A ratings are transferred to Intensive Care Management as soon as the rating is assigned.

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

The Strategic Risk Management Department is responsible for monitoring credit risk at portfolio level. The Management Board is kept up to date with changes in credit risks by means of monthly credit risk reports, and regular or ad hoc reports on risk-related issues. The Management Board and key management are comprehensively briefed on the Group’s risk situation, and also receive in-depth reports on selected issues, at meetings of the Risk Management Committee (RICO).

Risk concentration

Risk concentrations in the HYPO NOE Group are identified and monitored using country and industry limits, and by means of internal capital charges for name concentrations, as well as securities, derivatives and money market activities, 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 infrastructure and for – largely collateralised – subsidised home loans stand out.

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

Granularity adjustment (holding period of one year, confidence level of 99.9%), EUR ’000	31 Dec. 2019	31 Dec. 2018
Concentration risk inherent in credit risk	-16,156	-16,042

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

EUR '000	31 Dec. 2019	31 Dec. 2018
1	3,032,486	3,102,835
2	1,073,266	1,091,588
3	743,845	761,827
4	315,718	392,279
5	204,281	226,840

Country risk

Country risks are operational banking risks that arise in 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 cannot be influenced by creditors or borrowers. 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 (adequate for the approved volume planning of the strategic business areas) for the target countries, and by limiting the entire outstanding foreign exposures, amounting to 25% of total Group assets, as well as limiting foreign lending operations (Public Finance, Real Estate Project Finance and Corporate Customers control units) to 10% of total assets (early warning level).

Monitoring of the utilisation of the individual country limits is performed by Operating Credit Risk Management, while that of the portfolio country limits takes place at the quarterly RICO meetings.

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

EUR '000	31 Dec. 2019	31 Dec. 2018
Austria	11,964,117	11,789,417
Germany	389,024	340,825
France	203,629	183,327
Poland	183,581	185,141
Spain	136,339	129,017

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). 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. 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 lines).
- The fair value of the items in question is used when determining internal credit risk for securities in the banking book and the small trading book (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 external exposures. Credit risk is also calculated for any excess cash collaterals.
- Equity holding exposures are presented as investment risk based on their IFRS classification, in accordance with Art. 165 CRR, and are not included in credit risk.

The credit risk management system uses the following control units:

	Aggregate risk exposures in EUR '000	
Control units	31 Dec. 2019	31 Dec. 2018
Public Finance	7,702,757	7,853,817
Religious Communities, Interest Groups & Agriculture	238,237	208,367
Real Estate Project Finance	840,444	611,415
Treasury/Capital Market/FI	1,734,904	1,855,767
Housing Development	1,221,022	1,007,935
Housing and Commercial Property Austria	199,564	134,226
Retail Customers	1,151,813	1,050,822
Corporate Customers	1,045,688	964,687
Total	14,134,430	13,687,036

The credit risk management system uses the HYPO master scale (for details see Internal rating: the HYPO master scale).

	Aggregate risk exposures, EUR '000	
Rating category	31 Dec. 2019	31 Dec. 2018
1A - 1E:	7,199,615	7,415,634
2A - 2E	3,156,605	2,639,229
3A - 3E	3,385,836	3,194,793
4A - 4E	264,666	272,463
5A - 5E	127,708	164,917
Total	14,134,430	13,687,036

Credit risk management on an economic basis is also applied via the risk groups listed below.

	Aggregate risk exposures, EUR '000	
Risk groups	31 Dec. 2019	31 Dec. 2018
Banks	643,240	564,895
Sovereigns	979,925	1,197,086
State governments and local authorities	4,522,995	4,321,686
Multilateral development banks	29,254	19,331
International organisations	41,018	40,750
Public sector enterprises	330,758	440,243
Special purpose finance (IPRE and project finance)	1,233,274	786,128
Corporates	4,334,191	4,370,853
Retail Customers	1,769,304	1,717,683
Religious communities	74,019	49,205
Associations, insurance companies and leasing companies	176,450	179,177
Total	14,134,430	13,687,036

Credit risk mitigation

Together with the borrower's creditworthiness (expressed as a risk weighting or probability of default), collaterals are a key determinant of credit risk, and thus of the prescribed capital charge for a loan. 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 measurement and classification of collateral are subject to strict organisational and substantive rules. Throughout the Group a distinction is drawn 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. As part of the credit review process, Operating Credit Risk Management checks the information, assumptions and underlying parameters.

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

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 (if the approach to recognition, measurement and enforceability are insufficiently conservative). This risk is addressed by setting mortgaging values/minimum LGDs.

Current credit risk situation

The Group's loan and investment portfolio largely consists of low-risk loans to public sector borrowers such as sovereigns, 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 SMEs.

The NPL ratio is a key performance measure for banks in connection with financial assets in default. NPL coverage is defined as total Stage 3 risk provisions, taking account of collaterals, divided by the sum of the gross carrying amounts of the NPLs. Coverage for the Group as at 31 December 2019 was 86.6% (31 Dec. 2018: 63.8%).

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

Investment risk

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

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

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

IRB approach (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2019	31 Dec. 2018
Investment risk	-9,676	-9,053

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

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

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 at the portfolio and individual customer level. New lending subject to foreign exchange risk is only to specific customer segments and depends on borrowers' creditworthiness.

The calculation of own funds requirements (unexpected loss) in order to determine foreign exchange risk from a customer's perspective as part of Pillar 2 of the ICAAP follows the IRB approach set out in Art. 153 ff CRR. However, use is made of the minimum parameters for PD, LGD and remaining maturity in accordance with Art. 165(3) CRR.

Variance-covariance VaR, IRB approach (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2019	31 Dec. 2018
Customer foreign exchange risk	-2,002	-2,693

The receivables exposed to Swiss franc currency risk, from a customer's perspective, have the following rating structure:

EUR '000	31 Dec. 2019	31 Dec. 2018
Investment grade	153,355	152,516
Non-investment grade	87,844	138,923
Default	12,469	13,728
Total	253,668	305,167

In the investment grade category there is a significant concentration of lending to a company linked to the State of Lower Austria. The non-investment grade category largely consists of private housing finance. Lending exposed to Swiss franc currency risk was further run down in 2019.

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.

Customer fixed interest risk consists of the risk that hedging will lead to losses on structured, fixed-interest loans. It is regularly monitored by ALM.

Lease residual value risk is the risk that it will not be possible to realise the full calculated residual value of a leased asset. The monitoring is performed by Operating Credit Risk Management.

The migration risk is the risk of a deterioration in a debtor's creditworthiness, taking the form of an increase in the probability of default and a resultant downgrading of the customer's credit rating. It is countered by providing additional equity cover, using the buffers, as part of the risk-bearing capacity calculation.

As of now, settlement and CCP risk appear to be immaterial.

4.6 Derivatives and hedge accounting

4.6.1 Accounting policies for derivatives and hedge accounting

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 (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. In the main, the HYPO NOE Group 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.

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. The Group has exercised its elective right under IFRS 9 to recognise the FX basis spread as a "cost of hedging" the other reserves (OCI) in respect of some of the cross-currency swaps qualifying for hedge accounting. This limits the ineffectiveness 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 2019, only micro fair value hedges were reported on the Group balance sheet. A micro-hedge arises if a hedged underlying (or group of underlyings) can be clearly assigned to one or more hedges. Bottom layer hedges are used as a special form of micro fair value hedge for a variety of fixed-interest loans. Here, a bottom layer for a group of like underlyings is designated for hedge accounting, and it is assumed that following the expected prepayments this layer will in all likelihood remain in place until the hedge transactions mature. In this case, precise allocation of the individual underlyings to the remaining bottom layer is not required.

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

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

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

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

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

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

4.6.2 Carrying amounts and nominal values of derivatives

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

The following table provides an overview of the nominal values and carrying amounts of derivatives carried as at 31 December 2019.

EUR '000	31 Dec. 2019			31 Dec. 2018		
	Carrying amount		Nominal	Carrying amount		Nominal
	Assets	Liabilities		Assets	Liabilities	
Financial assets and liabilities – HFT	**438,035**	**406,606**	**5,172,476**	**428,983**	**391,428**	**5,497,011**
Interest rate derivatives	415,952	384,718	4,446,958	413,671	376,239	4,848,793
Foreign exchange derivatives	22,083	21,889	725,519	15,312	15,189	648,217
Positive and negative fair value of hedges (hedge accounting)	**436,278**	**767,441**	**10,211,964**	**377,134**	**665,173**	**10,019,376**
Interest rate derivatives	429,577	749,604	9,968,657	375,697	647,248	9,869,596
Foreign exchange derivatives	6,701	17,837	243,307	1,437	17,925	149,779

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

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

EUR '000	31 Dec. 2018					
	Financial assets/liabilities (gross)	Reported amounts offset (gross)(-)	Financial assets reported (net)	Effect of master netting agreements (-)	Collateral in the form of financial instruments (-)	Net amount
				Not offset		
	(a)	(b)	(c)=(a)+(b)	(d)(i)	(d)(ii)	(e)=(c)+(d)
Assets						
Financial assets - HFT	428,983	-	428,983	-18,900	-11,997	398,086
Positive fair value of hedges (hedge accounting)	377,134	-	377,134	-253,718	-55,704	67,712
Total assets	806,117	-	806,117	-272,618	-67,701	465,799
Equity and liabilities						
Financial liabilities - HFT	391,428	-	391,428	-18,900	-318,257	54,271
Financial liabilities - FVO	3,500	-	3,500	-	-	3,500
Negative fair value of hedges (hedge accounting)	665,173	-	665,173	-253,718	-361,579	49,876
Total equity and liabilities	1,060,101	-	1,060,101	-272,618	-679,837	107,647

4.6.3 Detailed information on hedge accounting

Net gains or losses on hedges

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

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

EUR '000	31 Dec. 2019			31 Dec. 2018		
	Net gains or losses on basis adjustments to underlyings	Net gains or losses on measurement of hedges	Ineffectiveness	Net gains or losses on basis adjustments to underlyings	Net gains or losses on measurement of hedges	Ineffectiveness
Assets						
Financial assets - FVOCI	**-305**	**217**	**-88**	**-9,860**	**9,970**	**110**
Bonds	-305	217	-88	-9,860	9,970	110
Financial assets - AC	**112,132**	**-114,223**	**-2,091**	**-12,632**	**13,354**	**722**
Loans	105,897	-108,561	-2,664	-12,782	13,454	672
Bonds	6,235	-5,661	573	150	-100	50
Investment property	**207**	**-231**	**-24**	**-**	**-**	**-**
Equity and liabilities						
Financial liabilities - AC	**-50,042**	**51,277**	**1,235**	**13,782**	**-14,486**	**-704**
Deposits	804	-849	-45	882	-888	-6
Bonds in issue	-50,846	52,126	1,280	12,900	-13,598	-698
Total	**61,991**	**-62,959**	**-968**	**-8,710**	**8,838**	**128**

The change in the "Net gains or losses on hedges" as compared to the net gains or losses on measurement for 2018 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 hedged underlyings item in the statement of financial position.

EUR '000	31 Dec. 2019	31 Dec. 2018
Assets	**6,725**	**1,440**
Financial assets - FVOCI	-	1
Financial assets - AC	6,725	1,439
Equity and liabilities	**429,553**	**375,694**
Financial liabilities - AC	429,553	375,694
Total	**436,278**	**377,134**

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 hedged underlyings item in the statement of financial position.

EUR '000	31 Dec. 2019	31 Dec. 2018
Assets	**747,043**	**637,741**
Financial assets - FVOCI	77,021	82,379
Financial assets - AC	669,801	555,362
Investment property	222	-
Equity and liabilities	**20,398**	**27,432**
Financial liabilities - AC	20,398	27,432
Total	**767,441**	**665,173**

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 the hedge accounting as at the end of the reporting period.

EUR '000	31 Dec. 2019		31 Dec. 2018	
	Carrying amounts of underlyings	Basis adjustments contained in the carrying amounts of underlyings	Carrying amounts of underlyings	Basis adjustments contained in the carrying amounts of underlyings
Assets				
Financial assets - FVOCI	**616,359**	**63,440**	**755,631**	**66,669**
Bonds	616,359	63,440	755,631	66,669
Financial assets - AC	**3,539,146**	**634,232**	**3,069,343**	**528,555**
Loans	3,000,408	601,651	2,711,978	501,947
Bonds	538,737	32,580	357,365	26,608
Investment property	**4,153**	**262**	**-**	**-**
Equity and liabilities				
Financial liabilities - AC	**7,203,076**	**334,867**	**7,146,963**	**284,825**
Deposits	81,549	2,136	99,745	2,939
Bonds in issue	7,121,527	332,732	7,047,218	281,886

Maturity profile of hedges

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

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

EUR '000	Nominal value at 31 Dec. 2018				
	Up to 3 months	3 months Up to 1 year	1 year Up to 5 years	Over 5 years	Total
Assets					
Financial assets – FVOCI	**82,050**	**56,000**	**298,450**	**217,000**	**653,500**
Bonds	82,050	56,000	298,450	217,000	653,500
Financial assets – AC	**20,000**	**81,797**	**424,406**	**2,080,089**	**2,606,292**
Loans	20,000	72,797	305,335	1,881,883	2,280,015
Bonds	-	9,000	119,071	198,206	326,277
Investment property	**-**	**-**	**-**	**-**	**-**
Equity and liabilities					
Financial liabilities – AC	**34,631**	**784,554**	**3,698,527**	**2,241,873**	**6,759,585**
Deposits	-	20,000	34,000	42,000	96,000
Bonds in issue	34,631	764,554	3,664,527	2,199,873	6,663,585
Total	136,681	922,351	4,421,383	4,538,962	10,019,377

Effects of hedge accounting on equity

For a portion of the cross-currency interest rate swaps included in hedge accounting, the option was exercised to recognise the FX basis spread as the "cost of hedging" and as an "other reserve" in equity.

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.

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.

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.

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

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

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

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

Level 3

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

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

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

Level 3 fair values occur in the following items.

Financial assets – mandatorily FVTPL and FVOCI (debt instruments)

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 individual cash flows, and the expected equity yield based on the ROE.

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 CVA/DVA.

Financial assets – FVOCI (equity instruments)

Working in concert with other organisational units, the General Secretariat/Participations Department coordinates and implements the process for determining the fair values reported under this item. The Group's binding measurement rules, which are regularly updated, provide the framework. These guidelines include the methods, processes and legal framework for measurement. They lay the basis for the implementation of the internal measurement processes, and use measurement case studies to establish the key principles, objectives and parameters for business decisions.

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

Financial assets – AC

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

Measurement model for the HETA contingent additional purchase price

All the senior and junior creditors that participated in the second KAF tender offer are entitled to the HETA contingent additional purchase price (CAPP), irrespective of whether they opted for the cash or exchange offer. The threshold for the CAPP and the payment terms are governed by the second KAF tender offer.

The HETA contingent additional purchase price is measured using an internal model, since it concerns an entitlement and not a traded financial instrument. There is neither a liquid market nor are there observable market transactions for the asset. The parameters for the Level 3 model were determined using available official information on HETA and from the Austrian Financial Market Authority (FMA), as well as a five-scenario analysis. This takes account of all the information and assumptions that market participants would apply in price formation.

The internal model is based on the following information:

- HETA Annual Report and Audited Financial Statements 2018
- HETA corporate presentation on the 2019 wind-down plan, 23 May 2019
- KAF's second tender offer
- Third FMA notice on HETA, 26 March 2019

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

The valuation model determines the expected amount recovered from the HETA wind-down on the basis of five different scenarios. The base-case scenario is based on HETA's internal assumptions for the expected wind-down proceeds. It corresponds to the official HETA scenario and, despite the risks described, it is therefore given the strongest weighting. To reflect the uncertainties involved, four other scenarios are also taken into account. In these, the assumptions regarding the expected amount recovered and the time when the payout will be made are adjusted, and a level of probability is attached to each scenario. The five scenarios cover a broad range of possible eventualities, and ensure that a reasonable estimate is made of the potential proceeds of resolution and the payout date, taking account of the current uncertainties.

The resolution authority has yet to give any indication that the wind-down as described in the FMA's third notice on HETA will be completed before 31 December 2023. KAF will only appoint an expert to determine the CAPP after the resolution authority has confirmed the wind-down of HETA, and disbursement of the CAPP will only take place thereafter. The base-case scenario is based on this time period. In the other scenarios, payout of the CAPP is assumed to be earlier or later, reflecting expectations of better or poorer progress with the wind-down.

The net present value in each scenario is calculated by discounting the gross carrying amount, applying a customary discount rate, in line with the discounted cash flow model. The discount rate comprises a market interest rate, liquidity costs and entitlement to a given rate of return. The market interest rate and liquidity costs take account of the payout date in each scenario. The rate of return entitlement covers operating costs and earnings entitlements, as well as residual measurement risks (model risk, assumptions, etc.). This entitlement is independent of the scenario, as it reflects the expected total return for an investor.

To determine the final estimate of the additional purchase price, as a first step the net present value in the individual scenarios is multiplied by the scenario weightings applied, and as a second the weighted scenario results are then added together. Depending on the parameters specified for each scenario, at 31 December 2019 the additional purchase price ranged from 1.5% to 9.2%.

Measurement of the CAPP is subject to risks and uncertainties. Besides the effects of economic developments and the outcomes of ongoing litigation regarding the amount recovered and the payout date, the information hitherto published by HETA on the wind-down has consistently deviated from actual events. This uncertainty is counteracted by using the most trustworthy information presently available, and taking account of a variety of scenarios and the estimated probability that they will occur. The effects of changes to significant unobservable inputs for the measurement model on the valuation are presented in the sensitivity analysis below.

This shows the effects of average changes in individual parameters, with other inputs remaining constant (ceteris paribus). The inputs are Level 3 (unobservable) parameters. The amount recovered from the wind-down has the greatest influence on the valuation; the higher recovery is, the higher the valuation will be. The two other significant inputs are the discount rate and the payout date. A higher discount rate results in a lower valuation, and an earlier payout date increases the valuation.

31 Dec. 2019 Sensitivity analysis: Level 3 parameters	Recovery, EUR m		Discount rate		Payout date, years	
	+100	-100	+1%	-1%	+1	-1
Valuation sensitivity to profit or loss (%)	+0.6%	-0.6%	-0.2%	+0.2%	-0.4%	+0.4%
Valuation sensitivity to profit or loss (EUR ’000)	1,734	-1,834	-529	553	-1,259	1,358

31 Dec. 2018 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 (%)	+0.5%	-0.5%	-0.2%	+0.2%	-0.3%	+0.4%
Valuation sensitivity to profit or loss (EUR ’000)	1,487	-1,524	-509	536	-1,043	1,130

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. 2019, EUR '000	Carrying amount	Fair value	Fair value measurement		
			Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	235,481	235,532	215,429	20,103	-
Financial assets - HFT	438,035	438,035	-	71,008	367,027
Financial assets - mandatorily FVTPL	224,413	224,413	27,723	40,607	156,083
Financial assets - FVOCI	620,063	620,063	617,448	-	2,615
Financial assets - AC	12,417,093	12,701,593	806,211	751,919	11,143,463
Positive fair value of hedges (hedge accounting)	436,278	436,278	-	436,278	-
Total assets	**14,371,364**				
Equity and liabilities					
Financial liabilities - HFT	406,606	406,606	-	406,606	-
Financial liabilities - FVO	4,432	4,432	-	-	4,432
Financial liabilities - AC	12,522,091	12,607,940	4,220,594	3,723,693	4,663,654
Negative fair value of hedges (hedge accounting)	767,441	767,441	-	767,441	-
Total equity and liabilities	**13,700,570**				

31 Dec. 2018, EUR '000	Carrying amount	Fair value	Fair value measurement		
			Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	417,130	417,130	417,130	-	-
Financial assets - HFT	428,983	428,983	-	54,413	374,570
Financial assets - mandatorily FVTPL	262,475	262,475	28,013	54,948	179,514
Financial assets - FVOCI	760,216	760,216	731,267	25,438	3,510
Financial assets - AC	11,640,675	11,844,014	596,049	698,367	10,549,599
Positive fair value of hedges (hedge accounting)	377,134	377,134	-	377,134	-
Total assets	**13,886,613**				
Equity and liabilities					
Financial liabilities - HFT	391,428	391,428	-	391,428	-
Financial liabilities - FVO	3,500	3,500	-	-	3,500
Financial liabilities - AC	12,106,624	12,189,911	4,123,770	7,392,654	673,486
Negative fair value of hedges (hedge accounting)	665,173	665,173	-	665,173	-
Total equity and liabilities	**13,166,725**				

As at 31 December 2019 the HYPO NOE Group had no assets or liabilities that were subject to non-recurring fair value measurement.

In 2019 there were no transfers between Levels 1 and 2 of the fair value hierarchy, and no transfers into or out of Level 3.

4.7.2 Fair value hierarchy: Level 3 disclosures

EUR '000	1 Jan. 2019	Gains/losses: Recognised in profit or loss	Gains/losses: Recognised in OCI	Purchases	Sales	31 Dec. 2019	Unrealised gains or losses recognised in profit or loss as at 31 Dec. 2019
Assets							
Financial assets - HFT	374,570	-7,542	-	-	-	367,027	-4,739
Financial assets - mandatorily FVTPL	179,514	5,487	-	1,918	-30,835	156,083	857
Financial assets - FVOCI	3,510	-	-236	9	-669	2,615	-
Total assets	**557,594**	**-2,056**	**-236**	**1,927**	**-31,504**	**525,725**	**-3,882**
Equity and liabilities							
Financial liabilities - FVO	3,500	932	-	-	-	4,432	-
Total equity and liabilities	**3,500**	**932**	**-**	**-**	**-**	**4,432**	**-**

EUR '000	1 Jan. 2018	Gains/losses: Recognised in profit or loss	Gains/losses: Recognised in OCI	Purchases	Sales	31 Dec. 2018	Unrealised gains or losses recognised in profit or loss as at 31 Dec. 2018
Assets							
Financial assets - HFT	425,868	-51,298	-	-	-	374,570	-45,256
Financial assets - mandatorily FVTPL	188,965	20,817	-	1,789	-32,058	179,514	3,717
Financial assets - FVOCI	3,430	-	130	-	-	3,510	-
Total assets	**618,263**	**-30,481**	**130**	**1,789**	**-32,058**	**557,594**	**-41,539**
Equity and liabilities							
Financial liabilities - FVO	-	3,500	-	-	-	3,500	-
Total equity and liabilities	**-**	**3,500**	**-**	**-**	**-**	**3,500**	**-**

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

All sensitivities are presented using a historical value-at-risk (VaR) approach (95% confidence level, one-year holding period, five-year history) in accordance with internal risk management policies. The table below shows the impact of changes in significant unobservable input parameters on Level 3 fair value. The figures are not a forecast or indication of future changes in fair value, but represent potential losses that could also result in gains of a similar amount. In the case of the "Financial assets and liabilities – HFT" item, global CDS curves represent the significant inputs. For 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 bp. An increase in premiums results in lower fair values. In the case of the "Financial assets – FVOCI" item, traditional DCF corporate valuation methods are used to calculate fair value. Level 3 is confined to equity instruments.

31 Dec. 2019, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets - HFT	367,027	828	Hybrid Hull-White model	Global CDS spreads
Financial assets - mandatorily FVTPL (excl. HETA)	133,397	3,935	Discounted cash flow (DCF) model	Credit and liquidation risk premiums
Financial assets - FVOCI	2,615	N/A	Adjusted net asset value (NAV) model; DCF	Adjusted equity (for adjusted NAV model); WACC (for DCF model)
Total	503,039	4,763		

31 Dec. 2018, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets - HFT	374,571	988	Hybrid Hull-White model	Global CDS spreads
Financial assets - mandatorily FVTPL (excl. HETA)	158,449	5,055	Discounted cash flow (DCF) model	Credit and liquidation risk premiums
Financial assets - FVOCI	3,510	N/A	Adjusted net asset value (NAV) model; DCF	Adjusted equity (for adjusted NAV model); WACC (for DCF model)
Total	536,530	6,043		

5 ADDITIONAL NOTES TO THE STATEMENT OF PROFIT OR LOSS

5.1 Net fee and commission income

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

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

31 Dec. 2019, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Total
Fee and commission income	**3,182**	**1,093**	**15,815**	**194**	**-**	**14**	**20,299**
Securities and custody account business	136	14	5,596	26	-	20	5,792
Payment transactions	647	702	5,441	78	-	8	6,876
Foreign exchange, foreign notes and coins, and precious metals	9	2	205	4	-	4	223
Other services	2,416	1	3,403	174	-	4	5,999
Trust transactions	-	-	-	-	-	-	-
Other fee and commission income	-26	374	1,171	-88	-	-22	1,409
Fee and commission expense	**-135**	**-38**	**-2,467**	**-660**	**-5**	**27**	**-3,277**
Securities and custody account business	-13	-	-988	-430	-	-8	-1,439
Payment transactions	-20	-16	-1,457	-230	-	-14	-1,737
Other services	-	-	-17	-	-	-1	-17
Other fee and commission expenses	-102	-22	-6	-	-5	50	-84
Total	3,048	1,055	13,347	-465	-5	42	17,022

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

"Net fee and commission income" jumped by EUR 2,231thsd or 15.1% in 2019. This increase resulted from growth in the Retail and Corporate Customers segment, and was due to income from cooperation partners and a good year for the securities business. In addition, the Treasury & ALM segment earned more commissions on securities business.

5.2 Net other operating income

EUR '000	2019	2018
Other income	**37,423**	**45,327**
Gains on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	508	292
Reversal of provisions	1,586	1
Gains on foreign currency translation	743	-
Gains on deconsolidation	60	8,286
Gains on investment property	2,953	2,767
Other rental income	319	286
Income from real estate services and property development	23,792	22,038
Early repayments	4,332	10,499
Sundry other income	3,131	1,158
Other expenses	**-23,003**	**-35,574**
Losses on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	-137	-261
Expenses arising from the recognition of provisions	-8,502	-19,228
Losses on foreign currency translation	-	-126
Losses on investment property	-1,936	-1,949
Expenses arising from real estate services and property development	-11,056	-10,375
Sundry other expenses	-1,373	-3,487
Total	14,420	9,753

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

Net gains on disposal of consolidated subsidiaries

EUR '000	2019	2018
Financial assets - AC	63	554
Property, plant and equipment	6	-
Other assets	144	11,301
Total assets	213	11,854
Financial liabilities - AC	56	11,500
Provisions	58	-
Other liabilities	8	-
Total liabilities	122	11,500
Proceeds of disposal	151	8,640
- Assets disposed of	-213	-11,854
+ Liabilities disposed of	122	11,500
Net gains on disposal of consolidated subsidiaries	60	8,286
Net gains on disposal of consolidated subsidiaries through profit or loss	60	8,286

EUR '000	2019	2018
Consideration received in cash and cash equivalents	151	8,640
Cash proceeds of the disposal of subsidiaries	151	8,640
Amount outstanding from the corporate transaction	-	-

"Net gains on disposal of consolidated subsidiaries" relate to the sale of a subsidiary of the HYPO NOE Group. The previous year's reported "Net gains on disposal of consolidated subsidiaries" arose from a share deal involving a property near the centre of Vienna which was disposed of because of a change in the Bank's branch concept.

5.3 Administrative expenses

5.3.1 Analysis of administrative expenses

EUR '000	2019	2018
Staff costs	**-60,723**	**-62,532**
Wages and salaries	-48,301	-48,331
Phantom share-based cash incentives	-	-16
Pensions and other employee benefit expenses	-12,421	-14,201
Other administrative expenses	**-44,536**	**-45,407**
Premises	-4,020	-4,801
Office and communication expenses	-1,323	-1,120
IT expenses	-10,834	-9,790
Legal and consultancy costs	-1,265	-3,438
Auditors: annual audit	-443	-459
Auditors: other auditing services	-35	-48
Auditors: tax consultancy services	-108	-174
Auditors: other services	-141	-208
Advertising and entertainment expenses	-4,755	-4,731
Warranty costs	-102	-71
Other administrative expenses	-22,238	-21,456
Financial stability contribution (bank tax)	-8,517	-8,724
Special effect	-6,133	-6,133
Deposit insurance fund and resolution fund	-7,521	-7,535
Special effect	-7,509	-7,476
Cost of compliance with company law	-679	-617
Training costs	-463	-471
Vehicle and fleet expenses	-747	-913
Insurance	-500	-395
Travel expenses	-309	-304
Cost of information procurement and payment transactions	-720	-915
Sundry other administrative expenses	-2,782	-1,582
Depreciation, amortisation and impairment	**-4,809**	**-4,833**
Depreciation and amortisation	-4,809	-4,825
Intangible assets	-417	-611
Buildings used by Group companies	-1,545	-1,819
Equipment, fixtures and furnishings (incl. low value assets)	-2,221	-2,395
Right-of-use assets (IFRS 16)	-627	N/A
Impairment	-	-8
Intangible assets	-	-8
Total	-110,067	-112,772

The year-on-year reduction in administrative expenses was due to the continued energetic implementation of the efficiency programme.

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

5.3.2 Staff costs

The reduction in the "Wages and salaries" item is largely explained by the demerger of the property management business from HYPO NOE Real Consult GmbH. This affected 18 employees, including two who were on parental leave. Where replacements are needed, the Group strives to make most of them by internal recruitment.

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

Since 1 January 2019, the defined contribution entitlements have been administered by APK Pensionskasse AG. Under the works agreement in force at HYPO NOE Landesbank für Niederösterreich und Wien AG and HYPO NOE Leasing GmbH since 1 January 2019, 2.7% of eligible salaries are paid to the pension fund on behalf of ordinary employees, 6% on behalf of departmental heads with all-in contracts, and 9.76% on behalf of division heads and other management members of like status. Where there were different agreements on contributions in the past, these remain in force. In the case of employees who joined the pension scheme on or before 31 December 2012, the employer's contributions vest five years after payments begin; in that of employees joining on or after 1 January 2013, they do so three years after commencement. Since 1 January 2019, eligibility for employer's contributions has been conditional on two years' service; prior service may be counted (for entrants before 1 January 2019 the waiting period was five years). At HYPO NOE Real Consult GmbH there are defined contribution plans for employees who entered the company's service before 1 January 2016. At HYPO NOE Immobilien Beteiligungsholding GmbH the pension arrangements currently only apply to one chief executive. The contributions made in 2019 totalled EUR 990thsd (2018: EUR 1,186thsd).

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.

	2019	2018
Average number of employees (incl. staff on parental leave)	760	801

EUR '000	2019	2018
Termination benefit expenses incl. provident fund for:	**-1,243**	**-1,263**
Management Board	-15	-22
Key management	-126	-125
Other employees	-1,102	-1,116
Pension expenses for:	**-1,434**	**-1,618**
Management Board	-89	-300
Key management	-196	-184
Other employees (including former employees)	-1,149	-1,134
Expenses for former officers	**-916**	**457**
Former Management Board members and their surviving dependents: allocations to/reversals of the pension provision	-561	805
Pensions paid to former Management Board members and their surviving dependents	-355	-348

EUR '000	2019	2018
Salaries of Management Board members	**-1,053**	**-2,987**
Short-term employee benefits	-1,053	-2,738
Current remuneration	-879	-2,363
Post-employment benefits	-	-249
Supervisory Board members' remuneration (non-employees)	**-112**	**-99**
Supervisory Board members' salaries	**-480**	**-419**
Remuneration of key management:	**-5,787**	**-5,508**
Current remuneration	-5,005	-4,410
Other short-term employee benefits	-461	-797
Post-employment benefits	-291	-277
Other long-term benefits	-27	-21
Provision for termination benefits	-3	-3

6 ADDITIONAL NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

Land and buildings held to earn rentals or for capital appreciation are classified as investment property. In cases of mixed occupancy, significant parts of land and buildings used by third parties are likewise reported as investment property, provided that the conditions for separate letting or sale are met. Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are reported as property, plant and equipment. The HYPO NOE Group held only intangible assets acquired for consideration and no self-constructed intangible assets in 2019.

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

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

Any indications of impairment are assessed on the basis of expert opinions, and impairments are recognised where necessary.

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).

EUR '000	2019	2018
Other income from investment property	**2,953**	**2,767**
Rental income	2,446	2,417
Other income	507	350
Other expenses arising from investment property	**-1,936**	**-1,949**
Depreciation	-1,658	-1,684
Expenses arising from let investment property	-277	-261
Total	1,017	818

EUR '000	31 Dec. 2019		31 Dec. 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Land and buildings	58,683	72,507	59,978	70,775
Investment property	38,235	45,204	39,608	47,878

The carrying amount of land as at 31 December 2019 was EUR 12,986thsd (2018: EUR 12,983thsd).

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

	Cost					Accumulated depreciation and amortisation					Carrying amount	
EUR '000	1 Jan. 2019	Additions	Disposals	Transfers	31 Dec. 2019	1 Jan. 2019	Write-offs	Transfers	Disposals	31 Dec. 2019	1 Jan. 2019	31 Dec. 2019
Intangible assets												
Software	8,889	132	-148	-	8,873	-8,134	-417	-	141	-8,409	755	463
Goodwill	877	-	-	-	877	-877	-	-	-	-877	-	-
Total intangible assets	**9,766**	**132**	**-148**	**-**	**9,750**	**-9,011**	**-417**	**-**	**141**	**-9,286**	**755**	**463**
Property, plant and equipment												
Land and buildings	75,067	631	-	-95	75,603	-15,089	-1,545	-	-286	-16,920	59,978	58,683
IT equipment	4,482	325	-1,051	113	3,869	-4,126	-277	-101	1,049	-3,455	357	414
Furniture and fixtures, and office equipment	32,742	2,017	-2,583	-207	31,969	-26,298	-1,898	101	2,408	-25,686	6,444	6,283
Rights of use (IFRS 16)	3,194	401	-243	-	3,351	-	-627	-	-	-627	-	2,725
Other property, plant and equipment	33	-	-113	198	118	-33	-46	-31	89	-21	1	97
Total property, plant and equipment	**115,517**	**3,374**	**-3,991**	**10**	**114,910**	**-45,545**	**-4,392**	**-31**	**3,260**	**-46,709**	**66,780**	**68,201**
Total investment property	**48,412**	**-**	**-**	**-10**	**48,664**	**-8,804**	**-1,658**	**31**	**1**	**-10,429**	**39,608**	**38,235**

	Cost					Accumulated depreciation and amortisation					Carrying amount	
EUR '000	1 Jan. 2018	Additions	Disposals	Transfers	31 Dec. 2018	1 Jan. 2018	Write-offs	Transfers	Disposals	31 Dec. 2018	1 Jan. 2018	31 Dec. 2018
Intangible assets												
Software	8,610	457	-178	-	8,889	-7,678	-611	-	164	-8,134	932	755
Goodwill	877	-	-	-	877	-877	-	-	-	-877	-	-
Total intangible assets	**9,487**	**457**	**-178**	**-**	**9,766**	**-8,555**	**-611**	**-**	**164**	**-9,011**	**932**	**755**
Property, plant and equipment												
Land and buildings	75,446	216	-595	-	75,067	-13,865	-1,819	-	595	-15,089	61,581	59,978
IT equipment	4,444	225	-186	-	4,483	-3,968	-342	-	184	-4,126	476	357
Furniture and fixtures, and office equipment	33,741	1,390	-2,389	-	32,742	-26,164	-2,011	-	1,877	-26,298	7,577	6,444
Rights of use (IFRS 16)	-	-	-	-	-	-	-	-	-	-	-	-
Other property, plant and equipment	125	-	-92	-	33	-87	-16	-	71	-32	38	1
Total property, plant and equipment	**113,756**	**1,831**	**-3,262**	**-**	**112,325**	**-44,084**	**-4,188**	**-**	**2,727**	**-45,545**	**69,672**	**66,780**
Total investment property	**48,501**	**81**	**-170**	**-**	**48,412**	**-7,118**	**-1,684**	**-**	**-**	**-8,804**	**41,383**	**39,608**

6.2 Provisions

6.2.1 Accounting policies for provisions

Employee benefit provisions

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

There are also defined benefit pension, and termination and jubilee benefit commitments. These plans are unfunded. "Funded" means that the funds needed as cover for commitments remain entirely in the company. The long-term employee benefit provisions are measured using the projected unit credit method, in accordance with IAS 19. Future obligations are measured on the basis of a report by an independent actuary. Recognition in the consolidated statement of financial position is at the present value of the defined benefit obligation. Actuarial gains and losses on the termination benefit and pension provision are recognised in equity, under the "Actuarial gains and losses recognised in other reserves" item. Actuarial gains and losses on the jubilee benefit provision are shown under "Administrative expenses" (Note 5.3) in the statement of profit or loss.

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

The discount rate applied to measurement at the end of the reporting period was 0.7% p.a. (2018: 1.8% 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. Future salary increases of 2.3% p.a. (2018: 2.3% p.a.), and future pension increases of 2.0% p.a. (2018: 2.0% p.a.) were assumed. An adjustment of 7.0% p.a. for employee turnover was applied to the jubilee benefit provision (2018: 7.0% p.a.).

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

Credit provisions

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

Other provisions

Other provisions are recognised when there is a present obligation as a result of a past event, it is more likely than not (probability of more than 50%) that it will be necessary to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

Measurement is based on estimates by independent experts, on the Bank's own experience, and on discounted cash flow methods. The carrying amounts reflect best estimates of the expenditure (outflow of resources) required to settle the obligations.

6.2.2 Movements in provisions

EUR '000	1 Jan. 2019	Allocations	Utilisation	Reversals	Discount unwinding effect	31 Dec. 2019
Employee benefit provisions	**33,019**	**651**	**-2,317**	**-**	**4,218**	**35,571**
Provisions for pensions	20,685	-	-1,313	-	2,565	21,936
Provisions for termination benefits	10,160	471	-938	-	1,230	10,923
Provisions for jubilee benefits	2,174	180	-66	-	423	2,711
Credit provisions	**1,832**	**2,297**	**-**	**-1,396**	**-**	**2,734**
Other provisions	**23,860**	**9,003**	**-2,109**	**-769**	**-21**	**29,965**
Total	58,711	11,951	-4,426	-2,164	4,197	68,270

The increase of EUR 2,552thsd in the employee benefit provisions is largely attributable to the fall in the discount rate from 1.8% to 0.7%. The details are given in Note 6.2.3 Disclosures on employee benefits.

The increase in the credit provisions was mainly a result of allocations to off-balance-sheet business; a detailed account is provided in Note 4.5.2 Detailed information on risk provisions.

The rise in "Other provisions" was chiefly driven by additional allocations to the provision for negative interest rates on corporate loan agreements.

Provision for negative interest rates on corporate loans

The reason for the provision is the negative interest rate precedents created by consumer and commercial law proceedings, which in some cases may lead to obligations to make repayments. As the amount of the provision is subject to considerable uncertainties, the assessment of the expected outflow of resources was based on a three-scenario model with the most accurate possible weighting. Key factors in the uncertainty of the estimates are the timing of a supreme court verdict, and the amount and timing of potential out-of-court settlements.

As at 31 December 2019, the provision stood at EUR 28,070thsd (31 Dec. 2018: EUR 19,810thsd). Accordingly, the change in the "Other provisions" item is principally due to the additional allocations to the provision for negative interest rates arising from corporate loan agreements.

As this provision relates to a legal risk, the recognition of allocations to it forms part of other operating expense as well as any reversals of other operating income.

6.2.3 Disclosures on employee benefits

The defined benefit obligation (DBO) is the present value of the benefit entitlements earned by employees up to the end of the reporting period (entitlements earned, benefit obligation). Current service cost (CSC) shows the increase in the benefit obligation resulting from employees' service during the reporting period. Interest cost (INT) is the effect on the DBO of the interest contribution, determined by the discount rate. Current service cost and interest cost are recognised in profit or loss, under "Staff costs" (Note 5.3.2 Staff costs). 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 those arising from benefits payable after the completion of employment. Jubilee benefits are classified as other long-term employee benefits. At present, the HYPO NOE Group has three defined benefit pension plans, and the remaining obligations have been transferred to an outside pension fund. The only other defined benefit obligations are to retired employees and their surviving dependents where the latter have entitlements. The average duration of the pension obligation is 11.1 years, and that of the termination benefit obligation is 11.8 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 Note 5.3.2 Staff costs). The jubilee benefits depend on employees' length of service and are governed by the collective agreement applicable to the employment contract concerned.

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Present value of DBO at 31 Dec. 2017	**23,092**	**11,124**	**1,991**	**36,207**
Current service cost	69	535	166	770
Interest cost	302	152	28	482
Payments	-1,413	-693	-103	-2,209
Actuarial gains and losses recognised in profit or loss	-	-	92	92
Actuarial gains and losses not recognised in profit or loss	-1,365	-958	-	-2,323
Present value of DBO at 31 Dec. 2018	**20,685**	**10,160**	**2,174**	**33,019**
Current service cost	-	471	180	651
Interest cost	372	193	42	607
Payments	-1,313	-938	-66	-2,317
Actuarial gains and losses recognised in profit or loss	-	-	381	381
Actuarial gains and losses not recognised in profit or loss	2,193	1,038	-	3,230
Present value of DBO at 31 Dec. 2019	**21,936**	**10,923**	**2,711**	**35,571**

The 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 2019, and the service and interest cost, as well as the underlying assumptions (discount rate, and salary and pension increases) for 2019 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. 2019, EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Discount rate 0.7%, salary increase 2.3%, pension increase 2.0%				
DBO	21,936	10,923	2,711	35,571
Current service cost	-	475	223	698
Interest cost	154	80	21	254
Supervisory and Management boards:				
DBO	-	333	47	380
Current service cost	-	15	2	18
Interest cost	-	2	-	3
Key management staff (identified staff)				
DBO	-	185	68	253
Current service cost	-	11	5	16
Interest cost	-	5	1	6

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. 2019: 0.25% discount rate increase	
Discount rate 0.95%; salary increase 2.3%; pension increase 2.0%	21,339
Carrying amounts as at 31 Dec. 2019: 0.25% discount rate decrease	
Discount rate 0.45%; salary increase 2.3%; pension increase 2.0%	22,562
Carrying amounts as at 31 Dec. 2019: 0.25% pension increase	
Discount rate 0.7%; salary increase 2.3%; pension increase 2.25%	22,562
Carrying amounts as at 31 Dec. 2019: 0.25% pension decrease	
Discount rate 0.7%; salary increase 2.3%; pension increase 1.75%	21,339
Carrying amounts as at 31 Dec. 2019: 1-year increase in life expectancy	
Discount rate 0.7%; salary increase 2.3%; pension increase 2.0%	23,162
Carrying amounts as at 31 Dec. 2019: 1-year decrease in life expectancy	
Discount rate 0.7%; salary increase 2.3%; pension increase 2.0%	20,754
Carrying amounts as at 31 Dec. 2019: previous year's discount rate	
Discount rate 1.8%; salary increase 2.3%; pension increase 2.0%	19,503

Provision for termination benefits, EUR '000	DBO
Carrying amounts as at 31 Dec. 2019: 0.25% discount rate increase	
Discount rate 0.95%; salary increase 2.3%; pension increase 2.0%	10,607
Carrying amounts as at 31 Dec. 2019: 0.25% discount rate decrease	
Discount rate 0.45%; salary increase 2.3%; pension increase 2.0%	11,253
Carrying amounts as at 31 Dec. 2019: 0.25% salary increase	
Discount rate 0.7%; salary increase 2.55%; pension increase 2.0%	11,260
Carrying amounts as at 31 Dec. 2019: 0.25% salary decrease	
Discount rate 0.7%; salary increase 2.05%; pension increase 2.0%	10,599
Carrying amounts as at 31 Dec. 2019: previous year's discount rate	
Discount rate 1.8%; salary increase 2.3%; pension increase 2.0%	9,629

6.3 Other assets and liabilities

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

Other assets

EUR '000	31 Dec. 2019	31 Dec. 2018
Accruals and deferrals	**7,944**	**8,426**
Other receivables and assets	**30,564**	**22,587**
Value added tax (VAT) and other tax credits (other than income tax)	16,781	3,671
Trade receivables	4,187	2,380
Other receivables	6,406	11,186
Total	**38,507**	**31,013**

The VAT and other tax credits of EUR 16,781thsd as at 31 December 2019 is due to the purchase of a state hospital, owned by a consolidated leasing company, in October 2019.

Other liabilities

EUR '000	31 Dec. 2019	31 Dec. 2018
Accruals and deferrals	21,946	21,810
Other liabilities	63,749	106,698
Trade payables	13,640	24,340
Outstanding invoices	21,991	53,772
VAT and other tax liabilities (other than income tax)	5,954	6,893
Lease liabilities in accordance with IFRS 16	2,727	N/A
Total	85,695	128,507

7 TAXES

7.1 Significant accounting policies in respect of taxes

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

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

Deferred tax assets and liabilities are measured using the balance sheet liability method, whereby the tax base of an asset is compared with the IFRS carrying amount, and deferred tax recognised for the temporary difference. If a tax liability is probable when the temporary difference reverses, a deferred tax liability is recognised. Deferred tax assets are recognised for temporary differences that result in tax reductions when they reverse. Offsetting of deferred tax assets and liabilities is performed on a company-by-company basis. Pursuant to IAS 12, deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset within the tax group, in accordance with paragraph 74 IAS 12.

Deferred tax assets 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").

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. A time horizon of five years (or, in the case of project companies, a horizon equal to the contractual term) is assumed. The carrying amounts of deferred tax assets arising from tax loss carryforwards and temporary differences are reviewed at the end of each reporting period.

7.2 Income tax

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

EUR '000	2019	2018
Current income tax	-7,646	-8,385
Deferred income tax	355	-3,163
Total	**-7,291**	**-11,548**

7.3 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	2019	2018
Profit before tax	**37,692**	**47,992**
x income tax rate	25%	25%
= anticipated income tax expense	**-9,423**	**-11,998**
Reductions in tax liability	**1,587**	**442**
Tax-free income from investments	474	342
Other tax-free income	660	100
Investments accounted for using the equity method	453	-
Increases in tax liability	**-1,219**	**58**
Non-deductible expenses	-1,219	-637
Investments accounted for using the equity method	-	694
Tax effects of other differences	**1,764**	**-50**
Previous years	1,893	-115
Prepayments	-12	46
Other adjustments	-117	20
Total	-7,291	-11,548

"Increases in tax liability" result from non-deductible expenses, such as the financial stability contribution, which ceased to be tax-deductible in 2017.

"Tax effects of other differences" mainly comprises deferred tax assets arising from the recognition of deferred taxes attributable to tax loss carryforwards at project companies whose earnings situation has improved significantly due to the conclusion of agreements for new real estate leasing projects.

7.4 Deferred income tax

EUR '000	Net deferred taxes 1, Jan. 2019	Change in 2019		Net deferred taxes, 31 Dec. 2019	of which assets	of which liabilities
		Recognised in profit or loss	Recognised outside profit or loss			
Financial assets - HFT	-98,356	-2,066	-	-100,422	-	-100,422
Financial assets - mandatorily FVTPL	-3,076	-1,331	-	-4,407	-	-4,407
Financial assets - FVOCI	-20,718	-189	1,447	-19,460	-	-19,461
Financial assets - AC	-158,475	-23,844	-	-182,319	1,212	-183,532
Positive fair value of hedges (hedge accounting)	-80,076	-16,139	-	-96,214	-	-96,214
Other assets (statement of financial position)	2,916	550	-	3,466	5,391	-1,925
Financial liabilities - HFT	95,095	3,894	-	98,990	98,990	-
Financial liabilities - AC	70,554	12,373	-	82,927	82,927	-
Negative fair value of hedges (hedge accounting)	158,359	28,318	-	186,677	186,677	-
Other liabilities (statement of financial position)	-2,235	-1,617	819	-3,033	4,214	-7,247
Tax loss carryforwards available for use without time limit	8,315	405	-	8,720	8,720	-
less deferred tax liabilities	-	-	-	-	-386,970	386,970
Total	**-27,696**	**355**	**2,266**	**-25,075**	**1,162**	**-26,238**

EUR '000	Net deferred taxes, 1 Jan. 2018	Change in 2018		Net deferred taxes, 31 Dec. 2018	of which assets	of which liabilities
		Recognised in profit or loss	Recognised outside profit or loss			
Financial assets - HFT	-106,829	8,472	-	-98,356	-	-98,356
Financial assets - mandatorily FVTPL	1,654	-4,730	-	-3,076	-	-3,076
Financial assets - FVOCI	-25,732	2,289	2,725	-20,718	977	-21,695
Financial assets - AC	-163,390	4,914	-	-158,475	1,519	-159,995
Positive fair value of hedges (hedge accounting)	-86,049	5,974	-	-80,076	-	-80,076
Other assets (statement of financial position)	1,610	1,306	-	2,916	4,820	-1,903
Financial liabilities - HFT	104,457	-9,362	-	95,095	95,095	-
Financial liabilities - AC	73,275	-2,721	-	70,554	70,554	-
Negative fair value of hedges (hedge accounting)	167,745	-9,386	-	158,359	158,359	-
Other liabilities (statement of financial position)	-2,235	567	-566	-2,235	4,204	-6,439
Tax loss carryforwards available for use without time limit	8,816	-500	-	8,315	8,315	-
less deferred tax liabilities	-	-	-	-	-343,844	343,844
Total	**-26,678**	**-3,177**	**2,159**	**-27,696**	**-**	**-27,696**

Net deferred tax credits of EUR 2,266thsd (2018: EUR 2,159thsd) 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 1,814thsd (2018: negative by EUR 2,778thsd).

No deferred tax assets were recognised in respect of tax loss carryforwards of EUR 14,112thsd (2018: EUR 18,388thsd).

The taxable temporary differences related to interests in affiliated companies, joint ventures and associates, for which no deferred tax liabilities were recognised under paragraph 39 IAS 12, totalled EUR 621thsd (2018: EUR 2,865thsd).

8 RISK MANAGEMENT

The HYPO NOE Group defines risk as the possibility of unexpected, unfavourable future developments that could have adverse effects on the Group's or individual Group companies' assets, earnings or liquidity.

All significant business activities aimed at achieving the Group's strategic objectives are planned to reflect strategic risk considerations, with a strong focus on risk-bearing capacity. The Bank attaches particular significance to evaluating risks in terms of the relationship between risk and opportunity. Risks are not ends in themselves; they are assumed in the interests of value creation and hence improved risk-bearing capacity, as well as achieving adequate returns on risk capital. The refinement of instruments and processes in order to maintain an appropriate balance of risks and rewards is integral to the Group's long-term strategy.

The Group's risk-bearing capacity is safeguarded by an appropriate relationship between risks and coverage capital. To this end, eligible risk coverage capital is very carefully defined, and the confidence level for risk quantification (i.e. the probability of loss) is set at a conservative level.

The disclosure of risks is based on the Group's internal risk management and risk reporting systems.

Risk management system

Achieving business success necessarily involves taking risks. The HYPO NOE Group practises active risk transformation, meaning that risks are incurred on the basis of considered decisions. The Group's risk management objectives are to identify, measure, actively manage and monitor all types of banking risks (credit, interest rate, market, liquidity, operational, reputational and other risks).

The Group's organisational structure provides for a clear separation of front and back office functions (four-eye principle) at every level up to and including the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast an independent vote that confers final approval. The internal control regulations require the unanimous approval of the front and back office functions for all business transactions that would alter the risk profile. There are also arrangements for the approval of exposures for which resolutions of the Group's Supervisory Board are required.

In principle, all quantifiable risks throughout the HYPO NOE Group are subject to a Group-wide, uniform limit system, which is constantly monitored. The Group-wide risk reporting system ensures the regular, timely and comprehensive reporting of all risks. In addition to the quarterly risk management report, which provides an aggregated summary of all identified material capital risks and the available capital coverage, and the monthly analysis of insolvency risk, the Management and Supervisory Boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk-related developments.

The disclosures required by Part 8 of the CRR are made on a consolidated basis for the HYPO NOE Group, in a separate document posted on the corporate website (https://www.hyponoe.at/en/home).

The rules for introducing new areas of business or new products, and for entering new markets, call for an appropriate prior analysis of the relevant business risks. Without exception, risky transactions are only permitted if they are explicitly regulated and authorised by the Group's risk documentation. The Group in principle restricts its exposures to areas where it has the necessary expertise to assess and manage the specific risks involved. Where the risk situation is unclear, or where there are methodological uncertainties, the principle of prudence prevails.

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. In spite of the risk management methods employed and internal control processes in place, the Group may be exposed to unknown and unexpected risks, nor can the risk management techniques and strategies applied completely rule out the future occurrence of risks.

Aggregate risk management and risk-bearing capacity (ICAAP)

The identification, quantification and monitoring of total Bank risk at portfolio level is the responsibility of the Strategic Risk Management Department, and encompasses the identification, measurement, aggregation and analysis of all the risks assumed, assessment of the adequacy of economic capital in relation to the risk profile, and the use and ongoing refinement of appropriate risk management systems.

The minimum capital requirement is calculated using the standardised approach (Pillar 1 of the Basel III regulations). All material risks (credit risk, [name] concentration risk, investment risk, interest rate risk on the banking book, credit spread risk, and liquidity risk) are actively managed as part of the Group's internal risk management process (Pillar 2 of the internal capital adequacy assessment process [ICAAP] regulations) and in compliance with the disclosure requirements (Pillar 3 of the Basel regulations).

Two control loops are used to monitor the maintenance of adequate risk-bearing capacity:

1. The economic capital management control loop ("gone concern") provides creditor protection against the dangers of liquidation. Risks are evaluated at a high confidence level (99.9% in the case of 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 evaluated at a lower confidence level (95% in the case of a one-year holding period) and compared with the coverage capital realisable without endangering survival.

The HYPO NOE Group's risks and risk limits (including buffers) for the purposes of the economic control loop as at 31 December 2019 and as compared with the previous year are shown below:

Type of risk	Economic risk, 31 Dec. 2019	Economic risk, 31 Dec. 2018
Credit risk	**295,006**	**253,191**
Counterparty risk	255,695	223,411
FX risk (customer perspective)	2,002	2,693
Investment risk	9,676	9,053
Concentration risk	16,156	16,042
Macroeconomic risk	10,654	1,992
Repayment vehicle risk	823	-
Market risk	**53,477**	**57,193**
Interest rate risk	24,384	28,760
Credit spread risk	26,928	26,091
Credit valuation adjustment risk	1,487	1,677
FX risk (Bank perspective)	28	15
Risk – small trading book	650	650
Liquidity risk	**6,500**	**6,966**
Operational risks	**23,263**	**24,367**
Total risk	378,246	341,717

Risk coverage capital	Allocated to risk-bearing capacity, 31 Dec. 2019	Allocated to risk-bearing capacity, 31 Dec. 2018
Economic capital	665,873	645,563
Hidden reserves/potential liabilities	28,112	22,900
Economic risk-bearing capacity (econ. RBC)	693,986	668,463
Economic risk limit (90% of econ. RBC)	624,587	601,617
Utilisation of economic risk limit	61%	57%

As at 31 December 2019 the Group was utilising 60.6% of the aggregate risk limit (including an adequate buffer) – marginally higher than at 31 December 2018 (56.8%).

Capital management of internal risk coverage capital

Aggregate banking risk management for the consolidated Group for the purposes of the CRR uses IFRS accounting principles in the calculation of own funds. Satisfying the capital requirements is also an essential factor in the process of ensuring that the Bank remains a going concern. The figures from the Common Reporting Framework (COREP) for own funds are thus taken over as potential economic risk coverage capital. Hidden economic reserves and potential liabilities from securities and investments also form part of the risk coverage aggregates. Changes in the total are the results of the volatility of hidden reserves and potential liabilities, and of decisions taken by the Annual General Meeting with respect to dividend distributions, allocations to reserves and any capital increases.

The principal components of the HYPO NOE Group's potential economic risk coverage capital are as follows:

- Tier 1 capital
- Hidden reserves/potential liabilities arising from securities (AC)

For moderate stress situations, and to cover unquantified risks such as reputation, lease residual value, migration and other risks, the Group sets aside a general buffer of 10% of the risk coverage capital, which is not split between the individual, quantified risk categories. This means that 90% of the risk coverage capital is available for capital allocation. The more sophisticated and accurate risk measurement processes can be, the smaller the capital buffer.

The following components are currently not included in the Group's economic coverage capital:

- Subordinated and Tier 2 capital (except for certain defined stress situations)
- Interim profits and losses for the current financial year

The exclusion of subordinated and Tier 2 capital from risk coverage capital serves to protect the Group's creditors. In the event of liquidation, the interests of subordinated creditors are protected, which represents prudent banking practice.

Recovery plan

Under the Bundesgesetz über die Sanierung und Abwicklung von Banken (Federal Act on the Recovery and Resolution of Banks), which came into force on 1 January 2015, the HYPO NOE Group is required to prepare a recovery plan. 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 heart of the expanded risk management and overall control processes brought into being by the recovery plan is the establishment of specific indicators, restructuring measures and communication procedures, as well as robust escalation and decision-making processes within the recovery governance structure to supplement the existing control measures in the event of an impending or unfolding crisis.

The recovery indicators are an integral part of the reporting by the relevant management bodies.

The 2019 review of the Group's recovery plan – the Act on the Recovery and Resolution of Banks requires regular reviews of the plan – was completed on schedule and the approved documentation submitted to the regulator. The review focuses primarily on assessing the selected indicators, including the defined threshold values, as well as updating the overall restructuring capacity and the defined scenarios.

Together with the HYPO NOE Group's stable business model, which is geared towards maintaining profitability over the long term, and dictates that risks can only be assumed on the basis of an overall risk strategy that is attuned with the Group's regional roots in Lower Austria, the recovery plan forms an additional key element in protecting the Group's assets, as well as its business partners and shareholders.

Bank-wide stress test

As part of the internal Bank-wide stress testing process, a comprehensive economic study compiled every year lays the groundwork for the annual analysis of scenarios relevant to the HYPO NOE Group's business model (e.g. protectionism and trade disputes, potential effects of new regulations, or a downgrade in the Republic of Austria's credit rating). The impact 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 possible countermeasures identified 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.

Basel III/IV

In addition to regular, wide-ranging adjustments of existing reporting methods to updated standards, preparations for future policies and measurement methods (e.g. Basel IV) and studies of their impact are also under way. The analysis shows that the revisions made by the Basel Committee on Banking Supervision (BCBS) to rules for all significant types of risk, and the requirements of the CRR II, published in the Official Journal of the EU on 7 June 2019 (Regulation [EU] 2019/876 of 20 May 2019), present a major challenge for banks. The aim is not merely to achieve regulatory compliance but also to evaluate the effects on all areas of the Bank, so as to initiate any necessary corrective action in good time.

Upgrading risk management systems

In 2020, the HYPO NOE Group will again refine its infrastructure, processes and methodologies, in order to meet current and future regulatory requirements, and to ensure that internal risk control systems remain compatible with the Group's permitted risk tolerance and its business objectives.

Minimum requirement for own funds and eligible liabilities (MREL)

The HYPO NOE Group received the MREL notice from the FMA at the end of June 2019. The prescribed MREL (6.12% of own funds and eligible liabilities, or 24.59% of the total risk exposure amount) is comfortably met, as there are adequate eligible liabilities and own funds.

Credit risk

Information on credit risk can be found in Note 4 Financial instruments and credit risk.

Market risk

General

Market risks are potential losses resulting from declines in the underlying value of exposures due to changes in market prices.

Bank-specific market risks include:

- Interest rate risk in the banking book
- Credit spread risk
- Fund price risk
- Foreign exchange risk
- Options risk (volatility risk)
- Trading book risk
- Basis risk
- Credit valuation adjustment (CVA) risk
- The concentration risk inherent in market risk
- Commodity price risk
- Share price risk

The HYPO NOE Group's market risk management strategy lays down the strategic guidelines for managing market risks specific to banking.

The main market risks facing the HYPO NOE Group are interest rate risk in the banking book and credit spread risk (particularly in the nostro portfolio), which arise in part from ordinary banking activities such as fixed-interest lending and management of liquidity reserves. The HYPO NOE Group has detailed monitoring and control processes for these risks. Due to business strategy targets, some foreign exchange and option risks (e.g. embedded upper and lower interest rate limits) are also managed. The use of derivatives to hedge interest rate risk can give rise to basis risk, which is also a focus for monitoring activities. Risk management procedures and methods have also been implemented with regard to CVA risk associated with derivatives. The Bank also uses the small trading book to service the secondary market and trade on its own account.

The HYPO NOE Group has not earmarked any internal risk capital for commodity, share price or fund risk, and consequently no substantial risks may be incurred in these market risk categories.

The overriding principle behind the Group's market risk management activities is guaranteeing adequate capital coverage of incurred market risks at all times, and ensuring that individual risk positions are transparent and are appropriately monitored and managed. This implies the following overriding objectives of market risk management:

- Identifying and evaluating all of the Bank's relevant market risks
- Taking account of the key market risks in the calculation of the Bank-wide risk-bearing capacity and stress-testing concepts
- Optimising the allocation of risk capital and the market risk positioning with respect to risk and earnings expectations
- Taking earnings expectations and risk tolerance into consideration in planning processes
- Complying with statutory requirements

In the light of these prime objectives, risk policy principles were established in order to determine the market risk strategy, and these have been implemented as guidelines for operational market risk management. These principles are:

- 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 put in place
- Determination by management of its risk appetite and tolerance for individual market risk categories

- Identifying and complying with legislation and regulatory frameworks
- Appropriately limiting and monitoring market risk on the basis of the specified risk tolerance
- Goal-driven reporting

Interest rate risk in the banking book

In its approach to the measurement and control of interest rate risk, the HYPO NOE Group distinguishes between period net interest income risk, which primarily addresses the risk of net interest income fluctuations in a given period, and present value risk, which measures the loss in underlying value of a particular portfolio as a result of interest-rate-induced changes in present values.

As a priority, the HYPO NOE Group monitors and manages interest rate risks in respect of aggregate net interest income and in sub-portfolios relevant to IFRS earnings and equity, since these are primary indicators of performance in the accounts for a given period. The present value of the interest rate risk in the entire banking book is managed to ensure conformity with Bank's total risk-bearing capacity and compliance with the limit requirements set out in the OeNB interest rate risk statistics.

Interest rate risks on structured positions and fixed-interest positions in the retail business are generally fully hedged from the outset using fair value hedges that are recognised in hedge accounting. Minor exposures are combined and hedged by means of layered hedges (see Note 4.6 Derivatives and hedge accounting). Medium to long-term open positions taken by the Bank in the light of interest rate expectations must reflect the product-specific risk profile, and must be in authorised products and within the approved limits. If no appropriate limits have yet been set for a desired position, the Strategic Risk Management Department and the unit taking the risk jointly propose a limit and a monitoring process, which must be approved by the Management Board before the transaction is completed.

Interest rate risk management

Monitoring and quantification of interest rate risk is the responsibility of an independent back office department, Strategic Risk Management. This generates interest rate gap and sensitivity analyses. Positions with interest rates fixed for indefinite periods are modelled and regularly assessed on the basis of statistical methods and/or expert evaluations. Analyses are carried out for the banking book as a whole and for sub-portfolios.

The management of intra-year interest rate risk positions is the responsibility of the Treasury/Capital Market/FI Department, while the ALM team handles management of long-term interest rate risk positions. The prime objective is to make stable, long-term contributions to net interest income, while also managing the present value of interest rate risk. Fixed and non-linear interest rate risks are normally hedged. Swaptions were approved as an additional tool for managing interest rate risk in January 2019. Strategic long-term positions in the banking book that are sensitive to interest rates are discussed by the Asset-Liability Management Committee on the recommendation of ALM and - following approval by the Management Board - managed by the Treasury/Capital Market/FI Department.

Banking book

The present value of interest rate risk for the banking book as a whole is subject to an absolute limit for the purposes of internal risk measurement. The limit is set during the annual risk budgeting process, on the basis of the Bank's total risk-bearing capacity and risk appetite, and in line with the limit requirements established by the OeNB interest rate risk statistics. In addition, the regulatory indicator for identifying outlier banks, which came into effect on 30 June 2019, is constantly monitored.

The present value of interest rate risk for all interest-sensitive positions (i.e. not for non-interest-bearing equity or interest-free investments) is measured for the banking book as a whole. The total risk is subject to a limit, is monitored and is restricted to the limit by using derivatives (mainly interest rate swaps). The basis of the measurement is the effect of a range of interest scenarios and interest rate shifts on the underlying value of the banking book.

Risk measurement as required by the OeNB interest rate risk statistics is carried out in compliance with the regulatory requirements. The OeNB's new reporting regulations, which will bring various changes in the calculation of the present value of interest rate risk, came into force on 31 December 2019. Fixed interest rate gaps (in net terms) between the assets and liabilities sides of the banking book are calculated and then multiplied by a weighting factor. The OeNB sets a weighting factor for each maturity band, which corresponds to the modified duration of a zero-coupon bond multiplied by an imputed interest rate shock; this is designed to show the effect of an upward or downward parallel interest rate shock on present values. The new reporting regulations, which transpose the EBA's 2018 IRRBB guidelines, introduce maturity-related interest rate floors in the event of interest rate shocks, and specify the extent of these shocks for each currency. Risk is determined separately for each of the main currencies (EUR, USD, CHF, JPY, GBP and CAD) that make up more than 1% of balance sheet assets or liabilities, and for all other currencies that account for over 5% of balance sheet assets or liabilities. The net items for each scenario and currency are aggregated. In each scenario, the positive totals across all currencies are given a 50% weighting and added to the negative totals across all currencies. The indicator for the OeNB interest rate risk statistics is the lowest figure for the upward and downward interest rate scenarios, the maximum value being zero.

Internal interest rate risk is assessed in the light of gap analyses and interest rate sensitivities. The worst-case change in present value is calculated for the entire banking book, based on the six EBA scenarios, and four of the scenarios subject to the EBA interest rate floor are also included without the floor. The ten scenarios are scaled up to a confidence level of 99.9% for the liquidation approach and to 95% for the going concern approach, with a holding period of one year. Parallel shifts and twists in the yield curve (on money and capital markets) are also modelled in the interest rate scenarios. The amended aggregation method across all currencies in accordance with the OeNB reporting regulations and the specified interest rate shifts will be used to measure interest rate risk from 31 December 2019.

During the first half of 2019, the rollover of the bottom layer of deposits was extended because of the low level of interest rates and the likelihood that this will persist. Compliance with the requirements of the EBA's IRRBB guidelines was implemented. In the case of loans, prepayment rates were ascertained using historical data and included in the measurement of interest rate risk. Due to their increasing significance, the presentation of implicit options in the interest rate risk calculations has been refined.

The risk of fluctuations in net interest income is taken into account by means of repricing risk. Repricing risk measures fluctuations in net interest income resulting from differences in variable reference rates (three-month Euribor, six-month Euribor, etc.) or differences in interest fixing dates for the same reference rates. Repricing risk is 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 are concluded to replace maturing 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 comprehensive income. Risk assessment and limit setting are based on present value sensitivities derived from the six EBA scenarios without an interest rate floor, scaled up to a confidence level of 95%.

Current interest risk situation – total banking book

The OeNB statistics indicate that interest rate risk remains low relative to the regulatory limit (20% of eligible capital). The following table shows the results of the OeNB regulatory interest rate risk statistics as at 31 December 2019 and 31 December 2018, as well as the outlier indicator as at 31 December 2019:

OeNB regulatory interest rate risk statistics	31 Dec. 2019	31 Dec. 2018
OeNB interest rate risk statistics	3.84%	3.50%
Supervisory outlier test	3.46%	-

The tables below present the interest rate risk positions taken by the HYPO NOE Group as at 31 December 2019 and 31 December 2018.

Interest rate risk positions (assets – liabilities), 31 Dec. 2019, EUR '000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	1,369,988	-808,071	561,917
>1-3 months	1,013,418	-1,161,899	-148,481
>3-6 months	1,569,949	-2,237,683	-667,734
>6 months-1 year	-517,685	1,277,650	759,965
>1 year-2 years	-601,250	653,211	51,961
>2-3 years	-601,486	500,407	-101,079
>3-4 years	-964,581	992,917	28,336
>4-5 years	-108,844	101,099	-7,746
>5-7 years	-872,070	703,769	-168,301
>7-10 years	82,046	72,912	154,959
>10-15 years	66,202	-3,265	62,937
>15-20 years	317,523	-300,495	17,029
Over 20 years	17,782	897	18,679

Interest rate risk positions (assets – liabilities), 31 Dec. 2018, EUR '000	On-balance-sheet	Off-balance-sheet	Total
Up to 1 month	1,970,633	-565,093	1,405,540
>1-3 months	1,221,194	-1,817,182	-595,988
>3-6 months	1,270,681	-1,675,784	-405,103
>6 months-1 year	-632,299	696,810	64,510
>1 year-2 years	-1,129,644	909,593	-220,051
>2-3 years	-650,706	460,353	-190,353
>3-4 years	-441,013	513,924	72,911
>4-5 years	-857,714	1,016,698	158,985
>5-7 years	-580,571	722,271	141,699
>7-10 years	368,197	-227,302	140,895
>10-15 years	-239,648	193,039	-46,609
>15-20 years	236,664	-239,535	-2,870
Over 20 years	32,821	-30,189	2,633

As at 31 December 2019, risk utilisation was 49% of the total limit of EUR 50m (31 Dec. 2018: 64% of the total limit of EUR 45m). The following tables show the results of the various interest rate scenarios for the HYPO NOE Group, and how they are reflected in the internal limits, as at 31 December 2019 and 31 December 2018. 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%.

Interest rate scenario, total banking book, 31 Dec. 2019, EUR '000	Change in present value	Scaled up to 99.9%
Scenario I: EBA parallel up	-22,167	-24,384
Scenario II: EBA parallel down	15,504	11,032
Scenario III: EBA steepener	-7,621	-8,131
Scenario IV: EBA flattener	13,874	7,172
Scenario V: EBA short rate up	751	-826
Scenario VI: EBA short rate down	3,165	3,117
Scenario VII: EBA parallel down without interest rate	95,542	60,122
Scenario VIII: EBA steepener without interest rate	50,829	28,303
Scenario IX: EBA flattener without interest rate floor	21,874	11,005
Scenario X: EBA short rate down without interest	9,711	5,949
Internal risk	-22,167	-24,384
Warning level (95% of limit)	-47,500	
Limit/utilisation (%)	-50,000	48.77%

Interest rate scenario, total banking book, 31 Dec. 2018, EUR '000	Change in present value	Scaled up to 99.9%
Scenario I: Parallel up	-26,146	-28,760
Scenario V: Short rate up	-3,605	-3,966
Scenario VII: EBA parallel down without interest rate	26,146	28,760
Scenario VIII: EBA steepener without interest rate	-11,106	-12,216
Scenario IX: EBA flattener without interest rate floor	8,419	9,261
Scenario X: EBA short rate down without interest	3,605	3,966
Internal risk	-26,146	-28,760
Warning level (95% of limit)	-42,750	
Limit/utilisation (%)	-45,000	63.91%

In the 2018 annual financial statements, no floor was applied in the calculation of the above interest rate scenarios. In order to enable comparisons with the 2019 annual financial statements, the designations of the scenarios as at 31 December 2018 was amended in line with the current designations.

The following factors need to be borne in mind when using sensitivity analyses:

- The scenarios may not be good indicators of future events, especially where these are extreme. This could lead to underestimation or overestimation of the risks.
- The assumptions about changes in the risk factors and the relationships between them (e.g. simultaneous twists in the euro and Swiss franc yield curves) may turn out to be false, particularly if extreme events occur. There is no standard methodology for developing interest rate scenarios, and applying other scenarios would generate different outputs.
- The scenarios applied do not provide any indications of the potential losses in situations not modelled by them.

Credit spread risk

Credit spread risk is the impact of adverse changes in risk premiums on securities, and of the related loss of intrinsic 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 VaR model (historical distribution assumption) for the entire nostro portfolio in the banking book, and for the securities portfolio in the small trading book. VaR is calculated on the basis of historical credit spread scenarios, which are estimated using the IBoxx indices. The changes arrived at in this way are then aggregated, and this distribution of losses forms the basis for calculation of a loss quantile (99.9% and 95%). The historical simulation methodology uses a five-year rolling time frame. This indicator measures the potential loss in value from widening spreads that would be realised on liquidating the entire securities portfolio. The table below shows the results of the credit spread VaR analysis for the HYPO NOE Group as at 31 December 2019 and 31 December 2018, assuming a holding period of one year and with a confidence level of 99.9%.

Credit spreads, VaR (holding period of one year, confidence level of 99.9%), EUR '000	31 Dec. 2019	31 Dec. 2018
Nostro portfolio, total	-26,928	-26,091

There were no significant changes in the methods used to measure and monitor credit spread risk during the reporting period.

Foreign exchange risk

The HYPO NOE Group's conservative risk policies are reflected in strict internal limits on open currency positions. The use of refinancing in the same currency and of FX derivatives means that foreign exchange risks for the Group are effectively eliminated. In accordance with the Capital Requirements Regulation, as at 31 December 2019 the Group was not subject to the own funds requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital. The internal limit for foreign currency positions is below this figure.

The residual foreign exchange risk for all open currency positions is regularly measured and monitored using a VaR approach based on foreign currency fluctuations over time. Correlations between the various currencies are taken into consideration (by using a variance/covariance approach). More recent developments in the time series are weighted more heavily than those further in the past, with a decay factor of 0.94. The table below shows the results of the currency position VaR analysis for the HYPO NOE Group as at 31 December 2019 and 31 December 2018, 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. 2019	31 Dec. 2018
Currency risk exposure, total	-28	-15

There were no significant changes in the methods used to measure and monitor foreign exchange risk during the reporting period.

Options risk

Volatility risks in the HYPO NOE Group chiefly arise from upper and lower interest rate limits on loans and deposits. Options are only used for control purposes to a very limited extent. These positions are managed and monitored as part of the management of interest rate risk on the banking book.

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 therefore limited in line with the provisions of that Article. Sensitivity limits and maximum loss limits have been set (31 Dec. 2019: EUR 650thsd, 31 Dec. 2018: EUR 650thsd), including an early warning indicator (31 Dec. 2019: EUR 300thsd; 31 Dec. 2018: 300thsd) that reduces the sensitivity limit by 50%. Daily monitoring is the responsibility of the Strategic Risk Management Department. During 2019 there were only isolated instances of minor positioning in the small trading book. There were no positions in the small trading book as at 31 December 2019.

Basis risk

Details on basis risks a can be found in Note 4.6 Derivatives and hedge accounting.

CVA/DVA risk

When calculating the fair value of derivative instruments, the CVA for counterparty risk and the debt valuation adjustment (DVA) for the Bank's own credit risk must be taken into account. The CVA is calculated using customary methods (expected exposure arrived at by means of a Monte Carlo simulation, and probability of default according to CDS curves). Global CDS spreads are applied (according to rating and sector). The effects of the CVA and DVA are recognised in consolidated profit or loss.

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 "Net measurement gains or losses" reported in the statement of profit or loss. CVA risk is measured monthly. For the purpose of aggregate banking risk management, fluctuations in the CVAs of relevant positions over time are measured and included as risks in the calculation of risk-bearing capacity. The daily changes in global CDS curves form the basis for measuring these fluctuations. Risk is measured using 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 the calculations. The HYPO NOE Group mainly concludes derivatives contracts through central clearing houses or collateralises them by means of a credit support annex (CSA) in order to reduce credit risk and the risk arising from CVA volatility.

On-balance-sheet market risk: sensitivity analysis

Market risk sensitivities in respect of profit or loss and in respect of equity are presented below. All sensitivities are presented using a VaR approach (95% confidence level, holding period of one year) as described above for the various types of risk. Repricing risk shows the effects on net interest income.

IFRS fair value sensitivities, 31 Dec. 2019, EUR '000	Profit/loss sensitivities			OCI sensitivities		
	VaR	Limit	Utilisation	VaR	Limit	Utilisation
Present value interest rate risk	-1,947	10,000	19%	-1,631	5,000	33%
Credit spread risk	-5,985	15,000	40%	-4,463	15,000	30%
CVA risk	-828					
FX basis risk	-2,336	9,000	26%	-162	1,000	16%
Banking book risk	-11,096			-6,256		
Trading book interest rate risk	-					

Interest income sensitivities, EUR '000	31 Dec. 2019
Scenario I: EBA parallel up	12,944
Scenario II: EBA parallel down	15,851
Scenario III: EBA steepener	15,679
Scenario IV: EBA flattener	11,374
Scenario V: EBA short rate up	15,494
Scenario VI: EBA short rate down	15,368
Scenario VII: EBA parallel down without interest rate floor	54,320
Scenario VIII: EBA steepener without interest rate floor	33,847
Scenario IX: EBA flattener without interest rate floor	10,577
Scenario X: EBA short rate down without interest rate floor	56,132
Worst case scenario	10,577

IFRS fair value sensitivities, 31 Dec. 2018, EUR '000	Profit/loss sensitivities			OCI sensitivities		
	VaR	Limit	Utilisation	VaR	Limit	Utilisation
Present value interest rate risk	-2,259	10,000	23%	-1,992	5,000	40%
Credit spread risk	-8,153	15,000	54%	-5,477	15,000	37%
CVA risk	-988					
FX basis risk	-2,490	9,000	28%	-261	1,000	26%
Banking book risk	-13,889			-7,729		
Trading book interest rate risk	-95					

Interest income sensitivities, EUR '000	31 Dec. 2018
Scenario I: EBA parallel up without interest rate floor	26,797
Scenario II: EBA parallel down without interest rate floor	46,519
Scenario III: EBA steepener without interest rate floor	29,234
Scenario IV: EBA flattener without interest rate floor	20,787
Scenario V: EBA short rate up without interest rate floor	28,489
Scenario VI: EBA short rate down without interest rate floor	43,891
Worst case scenario	20,787

Liquidity risk

Liquidity risk is defined as the danger that the HYPO NOE Group will be unable to meet its present and future payment obligations in full and on time, or may only be able to do so at prohibitive cost.

The HYPO NOE Group distinguishes between intraday liquidity risk management, operational liquidity management (up to one year) and the planning and implementation of the medium-to-long-term refinancing strategy (structural liquidity risk).

The table below shows a maturity analysis for the Group's non-derivative financial liabilities including existing financial guarantees, and for derivative financial liabilities and outstanding irrevocable loan commitments as at 31 December 2019 and 31 December 2018. Presentation is based on the following assumptions:

- Undiscounted contractual cash flows (including payments of principal and interest) are shown
- In the case of liabilities with variable cash flows, the future cash flows are calculated on the basis of forward rates
- Liabilities are reported at the earliest possible date they can be called in by the counterparty (sight deposits and savings deposits are therefore shown in the earliest maturity band, regardless of their actual maturities)

- Financial guarantees are allocated to the earliest maturity band
- Finance lease obligations are included at the expected time of payment
- Outstanding irrevocable loan commitments are included at the earliest possible time of availment
- Liabilities arising from derivative transactions based on master agreements do not include any netting agreements
- Cash flows from interest rate derivatives are included on a net basis
- Gross values are shown for repayments of obligations arising from foreign exchange derivatives and forwards
- The liabilities are presented in accordance with IFRS categories for the purpose of consistency. The most significant items from a liquidity perspective are also listed by internal categories.

Financial liabilities – maturity analysis, 31 December 2019, EUR '000

Equity and liabilities	(Notes)/internal liquidity categories	0-1 months	1-3 months	3-12 months	1-5 years
Financial liabilities – HFT	**4.4.1**	**101,466**	**52,770**	**72,732**	**206,963**
	Derivative liabilities	101,466	52,770	72,732	206,963
Financial liabilities – AC	**4.4.3**	**2,446,440**	**193,067**	**2,553,121**	**4,258,174**
	OeNB tender/GC Pooling repo	50,000	-	-	148,988
	Fixed-term interbank deposits	9,989	8,694	201,131	-
	Liabilities from collateral received for derivatives	86,015	-	-	-
	Customer deposits	2,277,420	152,978	998,985	218,529
	Unsecured own issues	9,483	6,859	265,610	1,765,696
	Secured own issues	13,533	24,536	1,087,395	2,124,961
Financial liabilities – FVO	**4.4.2**	**-**	**-**	**-**	**-**
Contingent liabilities		**1,285,413**	**-**	**-**	**-**
	Financial guarantees	143,924	-	-	-
	Loan commitments	1,141,489	-	-	-
Other items relevant to liquidity		**7,000**	**20,000**	**48,665**	**105,587**
	Finance lease obligations	7,000	20,000	48,665	105,587

Financial liabilities – maturity analysis, 31 December 2018, EUR '000

Equity and liabilities	(Notes)/internal liquidity categories	0-1 months	1-3 months	3-12 months	1-5 years
Financial liabilities – HFT	**(6.15)**	**43,298**	**39,933**	**-**	**72,732**
	Derivative liabilities	43,298	39,933	-	72,732
Financial liabilities – AC	**(6.17)**	**2,291,638**	**295,758**	**2,023,990**	**4,751,669**
	OeNB tender/GC Pooling repo	180,000	-	-	100,000
	Fixed-term interbank deposits	14,985	-	223,670	-
	Liabilities from collateral received for derivatives	79,875	-	-	-
	Customer deposits	1,999,664	259,964	807,452	204,429
	Unsecured own issues	3,579	19,838	262,813	1,421,693
	Secured own issues	13,536	15,956	730,054	3,025,547
Financial liabilities – FVO	**(6.16)**	**-**	**-**	**-**	**-**
Contingent liabilities		**1,037,743**	**-**	**-**	**-**
	Financial guarantees	134,956	-	-	-
	Loan commitments	902,787	-	-	-
Other items relevant to liquidity		**10,480**	**20,000**	**45,840**	**120,587**
	Finance lease obligations	10,480	20,000	45,840	120,587

The majority of derivative liabilities are collateralised with cash, or arise due to the inclusion of gross values for foreign exchange derivatives and forwards. As a result, actual net liquidity outflows will be less than the figure shown in the maturity analysis. In connection with derivatives with credit support annexes (CSAs), the general risk of remargining is taken into account in the calculation of the survival period, which is considered in the internal operational liquidity stress tests. This is based on the largest net change in the daily balance figures over the past two years, and an interest rate floor of 0% for the ten-year euro swap rate including a buffer. The worst-case liquidity outflow resulting from remargining of derivatives with CSAs for the year to 31 December 2019 and to 31 December 2018, expressed in EUR thsd, is shown in the table below.

31 Dec. 2019	31 Dec. 2018
175,245	197,211

Irrevocable loan commitments include unutilised credit lines and loan facilities as well as revolving credit lines (e.g. overdraft facilities and cash advances) where there is a strong likelihood that the unutilised credit lines/loans will be used within the contractually agreed period. In 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 close relationships exist account for a significant proportion of unused credit lines. On account of this close relationship, planned use of the credit line by the customer takes place in consultation with the Bank's relevant market units. This in turn facilitates forward planning of the Bank's refinancing requirements.

The Group's main sources of finance are secured and unsecured issues, and deposits from retail, SME and institutional customers. OeNB tenders and GC Pooling repos are used to manage liquidity.

The concentration of deposits from individual retail customers is usually low in volume terms, so the Bank has no significant concentration risks in this segment. By contrast, customer-specific concentrations are possible with institutional customers, some of which are in a position to make large investments. The Bank offers tailored products to achieve a certain distribution between various longer-term maturity bands. Liquidity risk management takes account of the possibility that institutional customers will withdraw deposits on maturity using scenarios based on experience of past crises; these form part of the internal operational liquidity stress tests used to calculate the survival period.

The ten largest fixed-term deposits made by institutional customers for the year to 31 December 2019 and the year to 31 December 2018 were as follows (EUR thsd):

	31 Dec. 2019	31 Dec. 2018
1	175,000	125,000
2	172,000	89,000
3	115,000	79,992
4	81,000	74,982
5	80,000	46,000
6	79,990	45,000
7	60,000	45,000
8	55,000	40,000
9	39,625	35,000
10	25,000	33,452

The HYPO NOE Group maintains a balanced refinancing mix. Collateralised and uncollateralised capital market issues are a core component of the refinancing structure, and will remain so in future. In contrast with the regular deposits business, issues allow the Bank to access long-term refinancing and offset the maturity transformation risk resulting from provision of long-term loans. Care is also taken to avoid concentrations in the maturity profile of issued debt.

Secured capital accounts for a significant portion of the Group's total refinancing, and will continue to do so in future; it is also very stable in times of crisis. Another advantage is that available collateral in the cover pools can be converted into assets eligible as collateral for OeNB tenders and used to provide liquidity in a crisis.

Fixed-term interbank deposits are another, albeit less important source of refinancing. The five largest depositors during the reporting period are listed in the table below (EUR thsd):

	31 Dec. 2019	31 Dec. 2018
1	134,000	134,000
2	32,500	40,000
3	30,000	25,000
4	13,700	20,000
5	10,000	10,000
6	-	10,000

The HYPO NOE Group's primary instruments for managing and covering short-term maturities are its available liquidity reserve, cash reserves and overnight investments. The Group makes a distinction between high-quality liquid assets (HQLA) and other ECB or GC Pooling repoable collateral. Strategic liquidity is mainly generated by means of OeNB tenders and GC Pooling repos. The breakdown of the available liquidity reserve as at 31 December 2019 and 31 December 2018 was as follows:

Available liquidity reserve, 31 Dec. 2019, EUR m	T0	1M	3M	12M
HQLA	1,054	1,054	1,039	979
Other collateral eligible for ECB tenders or GC Pooling repos	1,089	1,076	1,043	1,511

Available liquidity reserve, 31 Dec. 2018, EUR m	T0	1M	3M	12M
HQLA	978	978	947	926
Other collateral eligible for ECB tenders or GC Pooling repos	741	903	822	1,044

The analysis of the available liquidity reserve does not include collateral utilised as at the end of the reporting period. This means that once the liabilities secured with such collateral have matured, there could be an increase in the portfolios included in the maturity profile.

By definition, the focus of investments made from the liquidity reserve is restricted to HQLA, OeNB tenders or GC Pooling repoable collateral. As domestic investments are given priority, the concentration is mainly in low-risk Austrian government bonds.

If the refinancing options are not sufficient to cover financial liabilities, the Bank's emergency processes and measures are triggered. Based on the internal liquidity risk management processes, the necessary action takes place well before the occurrence of a situation that could pose a threat to the Group's continued operation.

The following information on the Group's liquidity risk management processes includes details of the individual components of the comprehensive liquidity risk management framework and how they work together. The framework takes into account all of the key aspects of liquidity risk management, including preparation and implementation of a refinancing and risk strategy adapted to the business model and the appetite for risk; use and regular monitoring of suitable methods and processes for determining, measuring, monitoring and managing liquidity risk; and implementation of effective escalation processes and contingency plans.

Liquidity risk management targets

The task of the liquidity risk management function is to identify, analyse and manage the HYPO NOE Group's liquidity risk position, so as to maintain sufficient, cost-effective liquidity coverage at all times.

This gives rise to the following fundamental objectives of the Group's liquidity risk management:

- Using suitable stress tests and limits to maintain a sufficient liquidity buffer to ensure solvency at all times
- Optimising the refinancing structure with respect to risk tolerance, maturity transformation and costs
- Comprehensive planning of the medium-to-long-term refinancing strategy
- Coordinating issuance in the money and capital markets
- Pricing commensurate with risks and costs
- Complying with statutory regulations and regulatory frameworks

These objectives define the core elements of the Group's liquidity risk management processes, namely:

- Identifying and regularly evaluating liquidity risks
- Determining and regularly reviewing the suitability of models and processes for measuring liquidity risks
- Quantifying liquidity risk on the basis of the established processes
- Identifying and complying with legislation and regulatory frameworks
- Determination of management's risk appetite/tolerance
- Maintaining an appropriate liquidity buffer at all times
- Limiting and monitoring liquidity risks appropriately, on the basis of the specified risk tolerance
- Goal-driven reporting
- Maintaining emergency plans and processes, and reviewing them regularly to ensure they are up to date and appropriate
- Managing operational liquidity in an efficient and timely manner
- Approving and monitoring implementation of the medium-to-long-term refinancing strategy
- Employing processes and procedures aimed at the risk-reflective allocation of liquidity costs

Implementation of liquidity risk management

Daily 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 for the purposes of analysing and controlling operational and structural liquidity, and monitoring compliance with the liquidity risk limits. These reports describe and analyse operational liquidity risk over a period of 12 months for a normal scenario (volatility scenario) as well as for three stress scenarios (bank name crisis, market crisis and combined crisis), and the structural liquidity risk in the normal scenario. In addition, the Management Board receives a comprehensive monthly liquidity report, incorporating planning assumptions and key liquidity risk indicators, as well as information on the current liquidity situation. The Management Board also receives regular reports on the liquidity position and limit utilisation from the ALM Committee and RICO.

In preparing the liquidity cash flow forecast and the various liquidity scenarios, all on-balance-sheet and off-balance-sheet positions (including contingent liabilities) affecting liquidity are taken into account. For the forecast, a distinction is made between business to which a deterministic approach is applied and that for which stochastic modelling is used. For the positions evaluated stochastically, repayment scenarios are based on statistical models, benchmarks and/or expert valuations in order to determine the expected capital commitment.

In addition to existing business, assumptions about expected new business and expected prolongations are made for each scenario. Prolongations represent the continuation of existing business relationships, while new business consists of new business from new or existing customers.

The HYPO NOE Group's operational liquidity capacity is evaluated and monitored on a monthly basis in terms of the length of time that the Bank is able to survive ("time to wall"). The net cash outflows in the normal scenario and the three stress scenarios are compared with the relevant available liquidity reserve, and the length of time before the liquidity reserve is no longer sufficient to cover the net cash outflows is calculated. The 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 standardised 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 for the individual stress scenarios are set out below:

- For the **bank name crisis** scenario, a deterioration in the HYPO NOE Group's individual liquidity is simulated. Other market participants are not initially affected by the crisis, but react directly, for example by withdrawing their deposits from the Bank. At the same time, the Group's refinancing options in the money and capital markets are severely reduced or non-existent.
- In the **market crisis** scenario, an overall deterioration in the liquidity of 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 bank name crisis and, as the Group is owned by the State of Lower Austria, may be seen as positive, given that customers have an increased need for security in a general crisis.
- The **combined crisis** links a bank name crisis with a market crisis. It should be noted that in such a crisis, the stress factors of the two components are not simply added: special parameters come into play. Refinancing in the money or capital markets is hardly possible at all, the liquidity buffer shrinks as market prices fall, and customer deposits are withdrawn in larger volumes, although not to the same extent as in a bank name crisis, since other market participants are also affected.
- A normal scenario is also simulated. This matches routine business developments, as well as customary fluctuations in deposits and withdrawals attributable to contingent liabilities. 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 2019 was a robust 39 weeks (31 Dec. 2018: 39 weeks). The regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity, alongside time to wall. The LCR is reported on a monthly basis and is integral to operational liquidity management and the planning processes. The LCR reported to the regulator was 157% as at 31 December 2019 (31 Dec. 2018: 198%). A regulatory limit of 100% and an internal limit of 120% are currently in place for 2019. There are also volume limits based on maturities, in order to control unsecured bank money market exposures. The 30-day limit of EUR 500m, 90-day limit of EUR 800m and up-to-one-year limit of EUR 1bn were adhered to throughout the monitoring period.

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 assumptions are made regarding new business and prolongations.

The HYPO NOE Group uses economic capital as a major metric for structural liquidity risk. Economic capital represents the maximum possible net interest loss that can be absorbed in the course of one year. For liquidity risk it is calculated using higher costs, as a result of potentially higher refinancing spreads over a year. On the basis of historical funding costs, the maximum expected increase in refinancing costs over the period of a year is calculated with a given confidence level for each major funding instrument. Actual performance is then monitored. The economic capital for a limit of EUR 10m was EUR 6.5m as at 31 December 2019 (31 Dec. 2018: EUR 7.0m for a limit of EUR 10m). In addition to the economic capital, there is a structural one-year gap limit of EUR 1bn, and the structural funding ratio (SFR), a recovery indicator, is also applied. The SFR is an indicator of maturity transformation risk. It is calculated as the ratio of the current one-year liquidity gap, including the available liquidity reserve, to a predefined portion of deposits. As at the end of the reporting period, the SFR was significantly higher than the internal early warning threshold of 125%, at 391% (31 Dec. 2018: 389%).

Besides these limits, there are early warning indicators to identify impending critical liquidity situations as early as possible, so that the Bank can initiate timely countermeasures.

Contingency plan

The liquidity contingency plan is designed to maintain effective liquidity management even in a market crisis. The plan governs the responsibilities in an emergency, the composition of the crisis management teams, the internal and external communication channels, and the action to be taken. 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 and documented in a multi-stage selection process. The feasibility and usefulness of each of the emergency measures in a variety of basic types of stress scenario were evaluated, the quantitative and qualitative effects worked out, and the individual steps in the implementation process determined.

Current liquidity risk situation

The HYPO NOE Group is well positioned in terms of its refinancing options, and draws its liquidity from conventional capital market transactions and deposits, as well as standard repo transactions and ECB tenders. The Group also uses its close relationships with development banks as a source of refinancing. The growth in business with institutional investors in the past few years has shown that the Group is a valued partner for these types of customers. In 2019, it became clear that the level of transactions with institutional investors could be increased at any time owing to their consistently strong demand.

The first half of 2019 saw strong demand for private placements, opening the way for successful issuance by the HYPO NOE Group. The greater part of the planned capital market funding was wrapped up early in the year, using a mix of covered bonds and senior preferred issues. There was also an increase in fixed-term deposits from institutional customers.

A number of smaller secured and unsecured issues, some with maturities of over ten years, were floated as planned in the second half of 2019. Taking advantage of positive market conditions, capital market funding was concluded with the issue of a EUR 500m benchmark covered bond from the public sector cover pool.

The HYPO NOE Group's liquidity position is strong. The refinancing mix, comprising current and savings account deposits, fixed-term deposits from institutional customers and capital market debt issues, ensures that this will continue to be the case over the long term. This broad-based refinancing portfolio is supplemented by sufficient marketable securities.

Throughout the period under review, the regulatory indicators for limiting liquidity risk – the Basel III indicators, LCR, net stable funding ratio (NSFR) and additional liquidity monitoring metrics (AMM) – were calculated on the basis of the published standards and reported to the Austrian regulator. Where applicable, the minimum regulatory requirements were observed. In future, compliance with the statutory regulations in day-to-day operations will be underpinned by the integration of the requirements in the internal liquidity risk management and planning processes, together with strict internal targets and the operational control processes already in place.

The HYPO NOE Group refines its liquidity risk management system on an ongoing basis, principally by incorporating the results of model and parameter validations, stress tests and emergency simulations.

Administrative and technical refinements were made to the liquidity risk reporting system, and the report preparation process was improved.

Operational risk

Operational risk is the danger of losses arising directly or indirectly from the inadequacy or failure of internal processes or systems, human error or external events. In each category of operational risk, legal risks can result in losses. This is because in every category the HYPO NOE Group can be exposed to claims or legal proceedings occasioned by alleged breaches of contractual, statutory or regulatory obligations. Information and communication technology (ICT) risk and reputational risk (which is treated as a separate category) are closely related to operational risk. However, business risks do not form part of operational risk.

The management of operational risks at the HYPO NOE Group is subject to a consistent Group-wide control framework. The following methods are used to identify, evaluate and diminish operational risks:

- Continuous identification of operational risk events, development of countermeasures designed to avoid similar events in future, and regular reporting to the Management Board
- Ongoing monitoring of the implementation of such measures up to completion, and submission of a quarterly status report to the Management Board
- Predictive 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 and improvement of 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 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 a strong emphasis on achieving continuous improvements in the effectiveness and efficiency of operational risk management processes. The operation and ongoing refinement of an effective internal control system (ICS) is intended to reduce the probability of operational risk events and minimise 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 during the reporting period was systematically collected in a database. Improvements are seen as a vital means of managing operational risk. They were consistently formulated and implemented when operational risk events and near-miss incidents occurred.

The early-warning and key risk indicators yielded satisfactory results.

The ICS was updated in the course of the annual review.

The risk content of new products was routinely surveyed using a standard evaluation tool which is built into the product launch process.

The requirements of the new EBA guidelines on outsourcing arrangements were incorporated in the Group's outsourcing policy and came into effect at the end of 2019.

ICT risk is managed by means of close cooperation between the Organisation & IT and Strategic Risk Management departments. Alongside initial activities aimed at raising employee awareness, as well as the annual update of the IT strategy documentation and other in-house measures, a wide-ranging project aimed at meeting the outsourcing requirements, based on a gap analysis performed externally, is now under way. The continuation of activities designed to mitigate ICT risk – taking account of the new regulatory requirements – will be a priority in 2020.

Reputational risk

The HYPO NOE Group attaches great importance to avoiding reputational risk, and it is therefore treated as a separate risk category. Avoiding potential damage to the reputation of the HYPO NOE Group is a vital consideration when making business decisions, and a process for evaluating reputational risk is in place.

Reputational risk is the danger of direct or indirect harm to the Group's reputation, and the opportunity costs entailed by such damage. Damage to the HYPO NOE Group's reputation can compromise its standing and undermine the trust of its stakeholders, such as customers, investors, employees, business partners and the community. The reasons may lie in a failure to live up to their expectations.

Meeting those expectations is essentially a matter of putting effective business processes in place, and of sound risk monitoring and management. The Group's code of conduct lays down the common values and principles shared by HYPO NOE Group employees. The HYPO NOE Group also takes care to avoid business policies and transactions associated with particular legal or tax risks, or with substantial environmental risks. The Group's lending is subject to clear ethical guidelines and business principles, aimed at 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 consonant with its philosophy and sustainability strategy. The ethics guidelines and business principles comprise inclusion and exclusion criteria, and are the basis for initiating new business across the Group. These criteria are also taken into account by a "reputational risk questionnaire" that forms part of the loan application and serves as an essential filter.

The independent Group ombudsman deals quickly and efficiently with customers' concerns (such as complaints and misunderstandings) and seeks satisfactory solutions in consultation with them. Besides meeting the statutory requirements for improving customer relationships, the goal is to mitigate reputational risk.

Other risks

The following types of risk are classified as "other risks":

- Business risk (the danger of loss resulting from a deterioration in the economic environment or in the HYPO NOE Group's business relationships)
- Strategic risk (the danger of losses arising from decisions on the Group's strategic focus and business development)
- Macroeconomic risk (potential losses resulting from exposure to macroeconomic risk factors)
- Concentration risk – cutting across various types of risk (potential adverse consequences that may arise from 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 real estate 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 related to data processing that could lead to physical, tangible or intangible damage)
- Securities risk (risks arising from the provision of securities-related services)

The Group monitors, identifies and hedges such potential risks using equity and takes negative changes into account at an early stage.

Latent legal risks

It is standard practice to recognise provisions for litigation in which the outcome or any potential losses can be reliably predicted. In such cases, the provisions are recognised at a level deemed appropriate in the circumstances, in accordance with the applicable accounting principles.

"Unutilised facilities" includes both unused loan facilities and revolving borrowing facilities (e.g. overdraft facilities). There is a strong probability that the unutilised credit facilities will be used within a contractually specified period, whereas 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 forming part of the disclosures in Note 10.4 Disclosures on related-party relationships.

EUR '000	31 Dec. 2019	31 Dec. 2018
Unutilised facilities	1,746,356	902,773

9 NOTES TO THE STATEMENT OF CASH FLOWS

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

"Cash flows from **operating activities"** relate in the main to cash inflows and outflows from "Financial assets – AC", "Financial assets – mandatorily FVTPL", "Financial assets – FVOCI" and "Financial liabilities – AC". When reconciling the profit for the year before non-controlling interests, non-cash items are removed; 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 sundry items. Sundry items primarily include non-cash items such as measurement gains and losses on investments accounted for using the equity method, on "Financial assets and liabilities – HFT", and on hedges, as well as deferred taxes. Taxes and interest paid and dividends received are reported as disclosures supplementary to "Cash flows from operating activities".

"Cash flows from **investing activities**" largely concern cash inflows and outflows from investments in and disposals of property, plant and equipment, and investment property. The 2019 figures include a cash flow arising from the disposal of a subsidiary.

"Cash flows from **financing activities**" are made up of dividends paid to owners of the parent and repayments of lease liabilities.

"**Cash and cash equivalents**" consists of cash on hand, demand deposits, and balances at central banks repayable on demand, and corresponds to "Cash and balances at central banks" in the statement of financial position.

Cash and cash equivalents decreased by EUR 181,649thsd in 2019, to stand at EUR 235,481thsd, mainly due to movements in "Cash flows from operating activities". The increase in "Financial assets – AC" was higher than that in "Financial liabilities – AC". Further details can be found under Note 4 Financial instruments and credit risk.

The following table shows changes in liabilities arising from financing activities.

EUR '000	1 Jan. 2019	Cash flows	Non-cash	31 Dec. 2019
Subordinated liabilities	1,453	-	-	1,453
Liabilities arising from financing activities	**1,453**	**-**	**-**	**1,453**

EUR '000	1 Jan. 2018	Cash flows	Non-cash	31 Dec. 2018
Subordinated liabilities	1,453	-	-	1,453
Liabilities arising from financing activities	**1,453**	**-**	**-**	**1,453**

Further information on "Subordinated liabilities" can be found under Note 4.4.4 Subordinated capital.

10 GROUP STRUCTURE AND RELATED-PARTY RELATIONSHIPS

10.1 Scope of consolidation

The consolidation of the HYPO NOE Group includes all subsidiaries that are directly or indirectly controlled by the parent and are material to the presentation of the Group's assets, finances and earnings. The scope of consolidation is reviewed on an ongoing basis. Besides the parent, HYPO NOE Landesbank für Niederösterreich und Wien AG, the Group comprises 63 Austrian subsidiaries in which the parent meets the criteria for control as set out in IFRS 10. Apart from the parent, 64 Austrian subsidiaries were included in consolidation in the reporting period. 11 companies are accounted for using the equity method (31 Dec. 2018: nine).

Subsidiaries are included in the scope of consolidation from the date on which control is obtained, meaning the test for a parent company is passed. Control exists when all three of the following conditions are met:

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

Subsidiaries are included in the consolidated financial statements from the point at which the HYPO NOE Group obtains control until the time at which it is no longer exercised. The Group regularly assesses whether certain facts or circumstances indicate that one or more of the above conditions for control are no longer met. When determining whether control as defined by IFRS 10 exists, the Group assesses a variety of factors, in particular the following:

- Actual and potential voting rights, where these are substantial
- The purpose and design of the investee
- Relevant activities and influence over them
- Legal means of influencing such relevant activities
- Exposure or rights to variable returns
- The Group's ability to use its power over the investee to affect the amount of the Group's returns

Where voting rights are seen as conclusive in judging whether control exists, the HYPO NOE Group is normally assumed to control an investee if it directly or indirectly holds or controls more than half of the voting rights. Besides voting rights, other rights and de facto circumstances are taken into account. Where the Group does not control a majority of the voting rights but does possess the practical ability to direct relevant activities, the Group is also assumed to control an entity.

Consolidation is performed in accordance with IFRS 3 Business Combinations, using the purchase method. The identifiable assets acquired, liabilities assumed and non-controlling interests are recognised at fair value as at the acquisition date. Any excess of the cost over the fair value of the net assets acquired is reported as goodwill (i.e. as an intangible asset; see Note 3.9 Intangible assets, and property, plant and equipment). Negative differences are recognised directly in profit or loss following an additional review. The carrying amount of goodwill is tested for impairment once a year and whenever there is an indication of impairment. Such indications include material deviations from the original strategic objectives, forecasts or the business plan of the companies in question, as well as deteriorations in market conditions.

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

All material intra-Group transactions are eliminated on consolidation. The HYPO NOE Group does not apply proportionate consolidation, as it does not hold interests in joint operations.

Joint ventures (IFRS 11) and associates (IAS 28) are accounted for using the equity method. The first step towards determining whether there is joint control is to discover who exercises power over the relevant activities. Joint control exists if such power is exercised by two or more parties on a contractual basis. Associates are entities over which the HYPO NOE Group directly or indirectly has significant influence. Significant influence over an entity usually exists if the Group holds between 20% and 50% of the voting rights. Besides the extent of the voting rights, the Group also takes account of other factors which indicate that significant influence is exercised. These include representation of the Bank on the management or supervisory bodies of the investee or participation in key decisions. In such cases, the question of whether there is significant influence even if the Group holds less than 20% of the voting rights is also considered.

Changes in 2019

The previously consolidated company HYPO NOE Valuation & Advisory GmbH, which was under liquidation, was removed from the register of companies on 29 January 2019 upon entry of the conclusion of liquidation in the register.

PPP Campus AM + SEEA GmbH, in which the HYPO NOE Group has a 50% interest, was established upon its entry in the register of companies on 3 April 2019.

The Group also holds a 50% stake in PPP Campus AM + SEEA GmbH & Co KG, which was established upon its entry in the register of companies on 17 April 2019.

Consolidated subsidiary HYPO NOE Real Consult GmbH was split up with retrospective effect from 1 January 2019 on the basis of a demerger and takeover agreement. The demerged assets were acquired by a newly established company, HV Immobilienverwaltung GmbH, on 4 May 2019 upon entry of the transaction in the register of companies. HV Immobilienverwaltung GmbH was sold to EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, an associate, on 26 June 2019, and deconsolidated, taking into account paragraph 45 IFRS 3.

A total interest of 8.9% in PINUS Grundstücksvermietungs Gesellschaft m.b.H., a consolidated company, was divested by way of transactions entered in the register of companies on 22 May, 29 May and 5 June 2019.

The legal form of EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft was changed to a GmbH (limited liability company) by resolution of the Annual General Meeting on 24 September 2019, in accordance with section 239ff Aktiengesetz (Austrian Companies Act).

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 2019:

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

NÖ. HYPO LEASING URBANITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
NÖ. Verwaltungszentrum - Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
PINUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	90.10%	90.10%
PROVENTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
Sana Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
SATORIA Grundstückvermietung GmbH	St. Pölten	100.00%	100.00%
Strategic Equity Beteiligungen GmbH	St. Pölten	100.00%	100.00%
Telos Mobilien - Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%
Treisma Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
Unternehmens-Verwaltungs- und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	51.00%	51.00%
VESCUM Grundstückvermietungs GmbH	St. Pölten	100.00%	100.00%
VIA-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VIRTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%
VITALITAS Grundstückverwaltung GmbH	St. Pölten	100.00%	100.00%
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	65.00%	65.00%
ZELUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%

10.3 Investments accounted for using the equity method

Investments in associates and arrangements where there is joint control are recognised at acquisition cost and are included in the consolidated statement of financial position at the date on which significant influence is obtained. In subsequent periods, the carrying amount of pro rata changes in equity is adjusted.

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

Exchange differences arising from investments accounted for using the equity method are reported as part of consolidated equity, in the currency translation reserve.

Investments accounted for using the equity method were as follows:

31 Dec. 2019, EUR '000	Domicile	Interest	of which indirect	Carrying amount	Profit or loss from continuing operations	Segment/Corporate Center	Reporting date
Joint ventures				**4,703**	**719**		
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	92	-1	Public Sector	31 Dec. 2019
Viminal Grundstückverwaltungs Gesellschaft m.b.H.	Vienna	50.00%	50.00%	5	5	Public Sector	31 Dec. 2019
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	739	89	Public Sector	31 Dec. 2019
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	3,851	645	Corporate Center	31 Dec. 2019
PPP Campus AM + SEEA GmbH	St. Pölten	50.00%	50.00%	16	-1	Public Sector	31 Dec. 2019
PPP Campus AM + SEEA GmbH & Co KG	St. Pölten	50.00%	50.00%	-	-18	Public Sector	31 Dec. 2019
Associates				**22,806**	**2,075**		
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	48.00%	-	2,080	112	Corporate Center	31 Dec. 2019
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	2,582	1,025	Corporate Center	31 Dec. 2019
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	672	-1	Public Sector	31 Dec. 2019
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	609	-73	Public Sector	31 Dec. 2019
NOE Immobilien Development GmbH*	St. Pölten	48.00%	48.00%	16,863	1,013	Real Estate Services	30 Sep. 2019
Total				**27,510**	**2,793**		

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or events that occurred between the reporting date of the company in question and 31 December 2019.

31 Dec. 2018, EUR '000	Domicile	Interest	of which indirect	Carrying amount	Profit or loss from continuing operations	Segment/Corporate Center	Reporting date
Joint ventures				**4,109**	**348**		
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	94	-16	Public Sector	31 Dec. 2018
Viminal Grundstückverwaltungs Gesellschaft m.b.H.	Vienna	50.00%	50.00%	-	-126	Public Sector	31 Dec. 2018
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	649	-34	Public Sector	31 Dec. 2018
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	3,366	524	Corporate Center	31 Dec. 2018
PPP Campus AM + SEEA GmbH	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PPP Campus AM + SEEA GmbH & Co KG	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Associates				**19,039**	**-885**		
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	48.00%	-	1,968	-959	Corporate Center	31 Dec. 2018
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	2,264	696	Corporate Center	31 Dec. 2018
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	674	1	Public Sector	31 Dec. 2018
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	682	-58	Public Sector	31 Dec. 2018
NOE Immobilien Development GmbH	St. Pölten	48.00%	48.00%	13,451	-565	Real Estate Services	31 Dec. 2018
Total				**23,148**	**-536**		

Losses totalling EUR 11thsd (31 Dec. 2018: EUR 234thsd) were not recognised in profit or loss. These accumulated losses fell by EUR 224thsd in 2019, whereas they increased by EUR 173thsd in 2018.

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

	Niederösterreichische Vorsorgekasse AG		EWU Wohnbau Unternehmensbeteiligungs-GmbH (consolidated financial statements)*		NOE Immobilien Development GmbH (consolidated financial statements)*	
Percentage holding	49.00%	49.00%	48.00%	48.00%	48.00%	48.00%
EUR '000 as at reporting date	**31 Dec. 2019**	**31 Dec. 2018**	**31 Dec. 2019**	**31 Dec. 2018**	**30 Sep. 2019**	**31 Dec. 2018**
Non-current assets	8,932	5,366	1,590,159	1,561,801	80,372	76,903
Current assets	145	2,792	193,637	187,081	20,228	6,881
Cash and cash equivalents	*137*	*61*	*120,610*	*116,906*	*7,202*	*3,097*
Non-current liabilities	-	-15	-1,595,043	-1,607,739	-63,582	-54,761
Current liabilities	-891	-931	-32,376	-26,204	-1,888	-1,707
Net assets (100%)	8,186	7,212	156,377	114,939	35,130	27,316
Group share of net assets	**4,011**	**3,534**	**75,061**	**55,171**	**16,862**	**13,112**
Adjustment items pursuant to the capital protection provisions of the Non-profit Housing Act	-	-	-73,093	-52,352	-	-
Impairment gains/losses	-	-	112	-851	-	-
Difference allocated to assets	-	-	-	-	-	339
Dividends received	-160	-167	-	-	-	-
Carrying amount of interests in associates	3,851	3,366	2,081	1,968	16,862	13,451
EUR '000 – profit/loss as basis for inclusion in annual report	**2019**	**2018**	**2019**	**2018**	**1 Jan.-30 Sep. 2019**	**2018**
Net interest income	203	105	-13	304	-644	-621
Other income	3,933	3,613	146,675	160,187	30,034	15,906
Operating expense	-2,700	-2,310	-129,529	-146,802	-25,830	-15,789
Profit before tax	1,436	1,409	17,132	13,689	3,560	-504
Income tax expense	**-447**	**-339**	**-30**	**-11**	**-742**	**520**
Profit for the year (100%)	989	1,070	17,102	13,679	2,819	16
Pro rata reversals allocated to assets	-	-	-	-	-339	-573
Group share of adjustment items pursuant to the capital protection provisions of the Non-profit Housing Act – impairment	-	-	-8,098	-7,525	-	-
Group share of profit/loss	485	524	112	-959	1,014	-565

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or events that occurred between the reporting date of the company in question and 31 December 2019.

Detailed disclosures on material associates and joint ventures

The positions held by key management personnel on the management boards of associates and joint ventures, as well as other details are set out in Note 10.4 Disclosures on related-party relationships.

Niederösterreichische Vorsorgekasse AG 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.

NOE Immobilien Development GmbH 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.

EWU Wohnbau Unternehmensbeteiligungs-GmbH (EWU), a limited company, serves as a holding company for investments in non-profit housing development companies. EWU's subsidiaries are mainly concerned with the acquisition, disposal and management of land, buildings and apartments on behalf of third parties, and also operate as property developers. They are subject to the Austrian Wohnungsgemeinnützigkeitsgesetz (Non-profit Housing Act). On 25 June 2019, EWU fully acquired property management company HV Immobilienverwaltung GmbH. The HYPO NOE Group's significant influence over EWU is exercised by means of voting rights and the appointment of members of the Group's key management to EWU's supervisory board.

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

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

Under paragraph 6 IAS 36 in conjunction with paragraph 5 IFRS 13, an objective (fair) value must be arrived at to calculate fair value less costs to sell.

The value in use is determined using the following two components:

1. The present value of EWU's expected cash flows (corresponds approximately to the fair value in accordance with IFRS 13)
2. The present value of expected cash flows from additional lending, which is in line with the potential synergies and is not priced into the fair value determined in accordance with IFRS 13 as these cash flows would not be available to typical market participants

Backtesting was performed for the input parameters in the course of preparing the HYPO NOE Group's annual financial statements. Since new, significant differences between the budgeted and actual volume of new business were identified, in the Group's view the reliability of financial budgets as the basis for forecasts of the volume of new business, as required by IAS 36, is no longer sufficient. Therefore, the fair value less costs of disposal is used as the recoverable amount, in accordance with paragraph 21 IAS 36.

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

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

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

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

EUR '000	Change in fair value	
Sensitivity analysis	31 Dec. 2019	31 Dec. 2018
10% increase in operating costs	-180	-187
10% decrease in operating costs	180	187
0.25 bp decrease in discount rate	-8	-48
0.25 bp increase in discount rate	-47	-21

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

10.4 Disclosures on related-party relationships

31 Dec. 2019, EUR '000	Parent companies	Non-consolidated subsidiaries	Associates accounted for using the equity method	Joint ventures in which the company is a joint venturer, accounted for using the equity method	Other related parties	Identified staff*
Open balances						
Selected financial assets	**2,789,224**	**117,408**	**402,803**	**4,984**	**403**	**2,263**
Equity instruments	-	83	22,806	4,703	232	-
Bonds	30,663	-	-	-	-	-
Loans (incl. demand deposits/loans from central banks)	2,758,561	117,325	379,997	281	171	2,263
Selected financial liabilities	**39,972**	**277**	**76,984**	**1,292**	**1,655**	**2,627**
Deposits	39,972	277	76,984	1,292	1,655	2,627
Nominal value of loan commitments, financial guarantee contracts and other commitments	**854,693**	**38,455**	**9,123**	**5,899**	-	-
Loan commitments, financial guarantees and other commitments received	-	-	-	-	-	-
Nominal value of derivatives	**1,088,889**	**85,000**	-	-	-	-
Current period						
Interest income	33,784	510	9,021	2	11	4
Interest expense	-125	-	-47	-1	-3	-4
Dividend income	-	-	707	160	199	-
Fee and commission income	94	2	219	14	-	1
Fee and commission expense	-1	-	-1	-	-	-

31 Dec. 2018, EUR '000	Parent companies	Non-consolidated subsidiaries	Associates accounted for using the equity method	Joint ventures in which the company is a joint venturer, accounted for using the equity method	Other related parties	Identified staff*
Open balances						
Selected financial assets	**2,881,409**	**116,185**	**394,757**	**4,802**	**6,301**	**2,509**
Equity instruments	-	-	18,842	4,306	-	-
Bonds	-	-	-	-	-	-
Loans (incl. demand deposits/loans from central banks)	2,881,409	116,185	375,915	495	6,301	2,509
Selected financial liabilities	**64,125**	**556**	**68,469**	**1,989**	**26,054**	**3,134**
Deposits	64,125	556	68,469	1,989	26,054	3,134
Nominal value of loan commitments, financial guarantee contracts and other commitments	-	**39,594**	**13,583**	**7,225**	**8,213**	**121**
Loan commitments, financial guarantees and other commitments received	**2,664,955**	-	-	-	-	-
Nominal value of derivatives	**1,073,032**	-	-	-	-	-
Current period						
Interest income	26,820	505	9,521	2	43	4
Interest expense	-35	-	-76	-1	-13	-4
Dividend income	-	-	482	167	139	-
Fee and commission income	-	2	134	-	10	1
Fee and commission expense	-	-	-4	-	-	-

*Includes loans, advances and guarantees as at 31 December 2019 of EUR 10thsd extended to the Management Board (31 Dec. 2018: EUR 37thsd) and of EUR 270thsd extended to the Supervisory Board (31 Dec. 2018: EUR 92thsd), all concluded on market terms.

The transfer prices between the HYPO NOE Group and related parties were arm's length prices.

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. Therefore, the state is included under "Parent companies" in the table above. The state's guarantees of loans and advances extended to third parties by HYPO NOE Landesbank für Niederösterreich und Wien AG (see table above) were all concluded on market terms. Use is made of the exemption from disclosure requirements under paragraphs 25 and 18 IAS 24.

Relationships with subsidiaries

Wolfgang Viehauser, a member of the Management Board, is deputy chairman of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten, and a member of the supervisory board of VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H. A member of the Group's Supervisory Board is a member of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

Relationships with entities accounted for using the equity method

Niederösterreichische Vorsorgekasse AG

A member of the HYPO NOE Group's key management is a member of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten. A member of the HYPO NOE Group's key management is a member of the management board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

EWU Wohnbau Unternehmensbeteiligungs-GmbH and its subsidiaries

A member of the HYPO NOE Group's key management is chairman of the management board of EWU Wohnbau Unternehmensbeteiligungs-GmbH, St. Pölten; another member of key management is a member of the company's supervisory board.

Management Board member Wolfgang Viehauser is chairman of the supervisory boards of EWU Wohnbau Unternehmensbeteiligungs-GmbH, St. Pölten, as well as Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H (all domiciled in Mödling).

A member of the HYPO NOE Group's key management is a member of the supervisory boards of Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H, all domiciled in Mödling.

NOE Immobilien Development GmbH and its subsidiaries

Udo Birkner, a member of the Management Board, is deputy chairman 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 chairman of the Supervisory Board chairs, and another member of the Supervisory Board is deputy chairman of the supervisory board of NÖ Landes-Beteiligungsholding GmbH, St. Pölten.

Information regarding key management personnel is presented in Note 5.3.2 Staff costs.

11 SUPPLEMENTARY INFORMATION

11.1 Leases

Finance leases (with the Group as lessor)

The main determinant of the classification of, and hence the method of accounting for leases is not the legal ownership of the leased property but the substance of the lease. If substantially all the risks and rewards incidental to legal ownership are transferred to the lessee, under IFRS 16 the lease is a finance lease; otherwise it is an operating lease. Most of the lease agreements concluded by the HYPO NOE Group as a lessor are classifiable as finance leases. Consequently, instead of recognising the assets, the present value of the future lease payments is reported under "Financial assets – AC", taking account of any residual values (see Note 4.3.6). 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).

EUR '000	31 Dec. 2019	31 Dec. 2018
Gross investment	**2,716,472**	**2,760,581**
Minimum lease payments	2,484,826	2,534,457
Up to 1 year	173,690	179,248
From 1 to 5 years	N/A	627,135
From 1 to 2 years	165,016	N/A
From 2 to 3 years	158,650	N/A
From 3 to 4 years	152,286	N/A
From 4 to 5 years	146,316	N/A
Over 5 years	1,688,868	1,728,074
Unguaranteed residual values	231,646	226,124
Unearned finance income	**-394,647**	**-427,706**
Up to 1 year	-41,247	-43,029
From 1 to 5 years	N/A	-150,461
From 1 to 2 years	-39,019	N/A
From 2 to 3 years	-36,760	N/A
From 3 to 4 years	-34,512	N/A
From 4 to 5 years	-32,248	N/A
Over 5 years	-210,861	-234,216
Net investment	**2,321,825**	**2,332,875**

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

Regional authorities – primarily the State of Lower Austria and Lower Austrian local authorities – account for around 98% (2018: 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 95% (2018: 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. 2019	31 Dec. 2018
Minimum lease payments	2,484,826	2,534,457
Unearned finance income	-394,647	-427,706
Net present value of minimum lease payments	**2,090,179**	**2,106,751**
Unguaranteed residual values	231,646	226,124
Net investment	**2,321,825**	**2,332,875**

Operating leases (with the Group as lessor)

The minimum lease payments stated for operating leases are recognised under "Investment property" in the statement of financial position. Future minimum lease payments on non-cancellable leases amount to EUR 1,217thsd per year over the next five years.

EUR '000	2019	2018
Operating leases		
Lease income	2,038	N/A

Lessee

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" (see 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).

EUR '000	31 Dec. 2019		
Right-of-use assets (IFRS 16)	Carrying amount	Additions	Depreciation and amortisation
Land and buildings	2,225	313	-439
Vehicles	80	13	-63
Parking spaces	175	75	-56
IT equipment	11	-	-5
Office equipment	18	-	-9
Other	215	-	-54
Total	**2,725**	**401**	**-627**

EUR '000	2019	2018
Lease liabilities by term		
Up to 1 year	631	N/A
From 1 to 2 years	608	N/A
From 2 to 3 years	518	N/A
From 3 to 4 years	470	N/A
From 4 to 5 years	166	N/A
Over 5 years	335	N/A
Total	**2,727**	**N/A**

EUR '000	31 Dec. 2019	31 Dec. 2018
Leases with the Group as lessee – supplementary information		
Variable lease payments	667	N/A
Payments for leases of low-value assets	5	N/A
Short-term lease payments	97	N/A
Total cash outflow for leases	630	N/A

The HYPO NOE Group's rental and lease commitments amount to EUR 760thsd in 2020 (2019: EUR 974thsd) and EUR 3,539thsd in total for the 2020-2024 financial years.

11.3 Contingent liabilities

EUR '000	31 Dec. 2019	31 Dec. 2018
Liabilities arising from guarantees and provision of collateral	143,924	134,956

11.4 Supplementary disclosures (pursuant to the Austrian Business Code, Banking Act and Covered Bond Act)

Contingent liability of the State of Lower Austria

Under section 1356 Austrian Civil Code, the State of Lower Austria is liable, as the deficiency guarantor, for all the liabilities incurred by HYPO NOE Landesbank für Niederösterreich und Wien AG up to and including 2 April 2003. Liabilities incurred between 3 April 2003 and 1 April 2007 are covered by the state guarantee, provided that their maturities do not extend beyond 30 September 2017. The guarantee does not cover liabilities incurred after 1 April 2007 or falling due after 30 September 2017. As at 31 December 2019, state guarantees of issues, deposits and other liabilities amounted to EUR 132,566thsd (31 Dec. 2018: EUR 137,497thsd) for the HYPO NOE Group.

EUR '000 **Securities admitted to trading (assets)**	31 Dec. 2019 Listed	31 Dec. 2018 Listed
Bonds and other fixed-income securities	652,076	561,148

EUR '000 **Assets pledged as collateral**	31 Dec. 2019	31 Dec. 2018
Cover pool for covered bonds and public sector covered bonds (bond issues)	6,324,331	6,036,501
Covering loans	6,149,744	5,976,507
Securities	174,587	59,993
Marketable collateral (securities) delivered to the collateral custody account with the OeNB (for "Financial liabilities - AC")*	331,711	243,733
Non-marketable collateral (loans) transferred to the OeNB (for "Financial liabilities - AC")*	385,736	403,872
**OeNB tenders*	199,300	279,554
Securities pledged to the EIB (for "Financial liabilities - AC")	86,685	120,102
Collateral delivered (cash) (for derivatives)	759,428	709,842

	31 Dec. 2019	31 Dec. 2018
After-tax return on assets (ratio of profit for the year to total assets)	**0.21%**	**0.26%**

Supplementary disclosures pursuant to the Austrian Banking Act

Foreign currency assets amounting to EUR 506,947thsd (31 Dec. 2018: EUR 263,284thsd) and foreign currency liabilities amounting to EUR 686,964thsd (31 Dec. 2018: EUR 681,250) are included in the total assets of HYPO NOE Landesbank für Niederösterreich und Wien AG pursuant to the Austrian Banking Act.

Receivables falling due within one year from bonds and other fixed-income securities stood at EUR 69,270thsd (31 Dec. 2018: EUR 84,005thsd), and those from bonds issued at EUR 1,247,951thsd (31 Dec. 2018: EUR 844,138thsd).

11.5 Events after the reporting period

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

12 GOVERNING BODIES OF HYPO NOE LANDESBANK

The following persons were members of the Management and Supervisory Boards during the reporting period:

Management Board
Wolfgang Viehauser, Management Board Member Markets and Speaker of the Board
Udo Birkner, Management Board Member Finance, Risk & Operations

Supervisory Board
Günther Ofner, Chairman
Michael Lentsch, Deputy Chairman
Karl Fakler
Gottfried Haber (until 31 Mar. 2019)
Birgit Kuras
Johann Penz (from 1 Apr. 2019)
Ulrike Prommer
Karl Schlögl
Hubert Schultes

Delegated by the Works Council
Franz Gyöngyösi
Claudia Mikes
Rainer Gutleder
Peter Böhm

Federal commissioners
Hans-Georg Kramer, Federal Ministry of Finance
Johannes Pasquali, Federal Ministry of Finance

Supervisory commissioners
Reinhard Meissl, office of the State of Lower Austria
Helmut Frank, office of the State of Lower Austria

St. Pölten, 21 February 2020
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 2019 IN ACCORDANCE WITH IFRS

HYPO NOE LANDESBANK FÜR NIEDERÖSTERREICH UND WIEN AG

Part II: HYPO NOE GROUP ANNUAL REPORT

1 DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the consolidated financial statements give a true and fair view of the Group's assets, finances and earnings, in conformity with the relevant accounting standards; that the financial review presents the course of the Group's business, and its results and financial condition in such a manner as to give a true and fair view of the Group's assets, finances and earnings; and that the Group operational and financial review describes the principal risks and uncertainties to which the Group is exposed.

St. Pölten, 21 February 2020
The Management Board

Wolfgang Viehauser
Management Board Member Markets and Speaker of the Board

responsible for

Sales Support & Ombudsman, Marketing & Sponsorship, Public Sector, Retail Customers, Corporate Customers, Real Estate Customers, and Treasury & ALM; press spokesman.

Udo Birkner
Management Board Member Finance, Risk & Operations

responsible for

Group General Secretariat & Law, Compliance, Human Resources, Finance, Risk, Operations/Organisation & IT, Real Estate Services and Internal Audit.

2 AUDITORS' REPORT

Opinion

We have audited the consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG, St. Pölten, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB and the Austrian Banking Act.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 and with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are described further in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses of not credit impaired financial instruments

Description and Issue

The measurement of expected credit losses of financial instruments shall consider reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic developments. To meet this requirement continually, expected credit losses are to be measured using valid and actual models and parameters. This requires making assumptions, discretionary decision making and estimations as well as complex data preparation- and -analysis procedures. As of December 31, 2019 volume of gross book values of not credit impaired financial assets amounts to EUR 15.127 Mio. The associated risk provisions amount to EUR 34 Mio.

We refer to the notes of the consolidated financial statements, Note 4.5 Credit risk and risk provisions.

Given the importance for the consolidated financial statements and the significant uncertainty of estimations as well as complexity involved in assessing valid and actual models and parameters, we identified expected credit losses of not credit impaired financial instruments as a key audit matter.

Our response

In order to evaluate adequacy of booked risk provisions particularly with regard to the use of valid and actual models and parameters, we appraised critically the bank's guidelines and the implementation of the periodically validation and updating of parameters. We evaluated design, implementation and effectiveness of the controls relevant to the periodically validation and updating of models and parameters. We tested that measurement of expected credit losses considered these updated models and parameters as well as all relevant financial instruments.

Impairment of loans with increased risk criteria (the "Watch-loans")

Description and Issue

As of December 31, 2019 volume of loans to customers with increased risk criteria ("Watch Loans") was EUR 112 Mio. Watch Loans are subject to intensified credit monitoring. The need for transfer of Watch Loans to credit impaired loans (default) is assessed on the basis of criteria that are included in the Bank's internal guidelines. The decision-making process relating to transfer, and thus for assessing the need for additional risk provisions in accordance with methods to be applied to defaulted financial instruments, requires a significant degree of discretionary decision making.

We refer to the notes of the consolidated financial statements/"Credit risk analysis" section of Note 4.5.4 Credit.

Given the importance for the consolidated financial statement and the significant degree of discretionary decision making regarding identification and evaluation of risk factors responsible for the transfer of Watch Loans to the Workout Management Department, we identified the recoverability of the watch loans as a key audit matter.

Our Response

We evaluated design, implementation and operating effectiveness of the key controls regarding the process for identifying and evaluating the risk factors for transfer of Watch Loans to the Workout Management Department. We evaluated the appropriateness of discretionary decision making in connection with the transfer of Watch Loans to the Workout Management Department for a sample of Watch Loans.

Other Information

Management is responsible for the other information. The other information comprises all information in the consolidated non-financial statement, which we obtained prior to the date of this auditor's report, and the annual report (but does not include the consolidated financial statements, the consolidated management report and our auditor's report thereon), which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. With respect to the information in the consolidated management report beyond the consolidated non-financial statement we refer to the section "Report on the Audit of the Consolidated Management Report".

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements. The consolidated non-financial statement included in the consolidated management report is not subject to our audit; our respective responsibilities are described in the section "Other Information".

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

Opinion

In our opinion, the consolidated management report are prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a UGB and is consistent with the consolidated financial statements.

Statement

In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidated financial statements, we have not identified material misstatements in the consolidated management report.

Other Matters which we are required to address according to Article 10 of Regulation (EU) No 537/2014

We were appointed by the annual general meeting on February 28, 2018 and commissioned by the supervisory board on February 28, 2018 to audit the consolidated financial statements for the financial year then ending December 31, 2019. We have been auditing the Group uninterrupted since the financial year ending December 31, 1992.

We confirm that our opinion expressed in the section "Report on the Audit of the Consolidated Financial Statements" is consistent with the additional report to the audit committee referred to in Article 11 of Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 and that we remained independent of the Group in conducting the audit.

Engagement Partner

The engagement partner responsible for the audit is Mr. Thomas Becker.

Vienna, February 21, 2020

Deloitte Audit Wirtschaftsprüfungs GmbH

Thomas Becker m.hp Certified public accountant	ppa. Christoph Tiefenböck m.p. Certified public accountant

The consolidated financial statements baring our audit opinion may only be published or transmitted in the version certified by us. This audit opinion relates exclusively to the complete German-language consolidated financial statements, and operational and financial review. The provisions of section 281 (2) Austrian Business Code apply to other version

3 REPORT OF THE SUPERVISORY BOARD

In 2019 the Supervisory Board discharged the duties incumbent upon it by virtue of the law and the articles of association, and was kept regularly informed by the Management Board on the course of business and the state of the Bank's and the Group's affairs.

The accounts and records, the **2019 annual financial statements, and the operational and financial review** of HYPO NOE Landesbank für Niederösterreich und Wien AG, to the extent that it discusses the financial statements, have been audited by the independent auditors, Deloitte Audit Wirtschaftsprüfungs GmbH. As the audit gave rise to no objections and the statutory requirements were fully complied with, the auditors issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings, is in agreement with the annual financial statements for the year ended 31 December 2019, and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board, and hereby approves the 2019 annual financial statements in accordance with section 96(4) Austrian Companies Act.

The auditors Deloitte Audit Wirtschaftsprüfungs GmbH audited the **2019 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 2019, and of its earnings and cash flows for the year then ended, in accordance with the 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, 3 March 2020
The Supervisory Board

Günther Ofner
Chairman

4 LIST OF ABBREVIATIONS

AC	amortised cost
AFS	available for sale
AG	Aktiengesellschaft (public limited company)
ALM	Asset Liability Management
ALMM	additional liquidity monitoring metrics
Art.	article
BCBS	Basel Committee on Banking Supervision
BCM	business continuity management
FLG	Federal Law Gazette
bps	basis points
Brexit	British exit – withdrawal of the United Kingdom from the European Union
CCF	credit conversion factor
CDS	credit default swap
CEE	Central and Eastern Europe
CEIR	credit-adjusted effective interest rate
CF	cash flow
CHF	Swiss franc
COREP	common solvency ratio reporting
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSA	credit support annex
CSC	current service cost
CTM	critical terms match
CVA	credit valuation adjustment
DBO	defined benefit obligation
DVA	debt valuation adjustment
EAD	exposure at default
EAR	exposure at risk
EBA	European Banking Authority
ECF	expected cash flow
ECL	expected credit loss
EIR	effective interest rate
EL	expected loss
EONIA	Euro Overnight Index Average
EPC	European Payment Council/European Council of Payments
ESA	European System of Accounts
EU	European Union

EUR	euro
EURIBOR	Euro InterBank Offered Rate
EWU	Wohnbau Unternehmensbeteiligungs-GmbH
ECB	European Central Bank
FMA	Austrian Financial Market Authority
FV	fair value
FVO	fair value option
FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss
FX	foreign exchange
GmbH	Gesellschaft mit beschränkter Haftung (limited liability company)
HETA	Heta Asset Resolution AG
HFT	held for trading
HIBH	HYPO NOE Immobilien Beteiligungsholding GmbH
HQLA	high quality liquid assets
HTM	held to maturity
HVS	HYPO NOE Versicherungsservice GmbH
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBOR	interbank offered rate
ICAAP	Internal Capital Adequacy Assessment Process
ICS	internal control system
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IFRS IC	IFRS Interpretations Committee
INT	interest cost
incl.	including
IPRE	income-producing real estate
IRRBB	interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
IT	information technology
LAC	liabilities at cost
LAR	loans and receivables
LCR	liquidity coverage ratio
LGD	loss given default
LTIP	long-term incentive plan
LIBOR	London Interbank Offered Rate
EUR m	million euro
m	million
bn	billion

MREL	minimum requirement for own funds and eligible liabilities
N/A	not available/not applicable
NBWRL	revaluation surplus
NR	not rated
no.	number
NID	NOE Immobilien Development AG
NÖ	Niederösterreich (Lower Austria)
NPL	non-performing loan
NSFR	net stable funding ratio
OCI	other comprehensive income
OCR	overall capital requirements
OeNB	Oesterreichische Nationalbank (Austrian central bank)
OIS	overnight index swap
OLS	ordinary least squares
OTC	over the counter
p.a.	per annum
PD	probability of default
PiT	point in time
POCI	purchased or originated credit impaired
RICO	Risk Management Committee
ROE	return on equity
RMAs	Risk Management Annexes
RWA	risk weighted asset
SFR	stable funding ratio
SIC	Standing Interpretations Committee
SME	small and medium enterprise
SPPI	solely payments of principle and interest
SREP	supervisory review and evaluation process
S&P	Standard & Poor’s
EUR ‘000/EUR thsd	thousand euro
TSCR	total SREP capital requirements
thsd	thousand
TTC	through the cycle
UGB	Unternehmensgesetzbuch (Austrian Business Code)
VaR	value at risk

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