HYPO NOE

Semi-Annual Financial Report 2019

www.hyponoe.at

Current rating

Standard & Poor's: 'A/A-1' (positive) issuer credit rating

Group financial highlights

EUR '000	30 Jun. 2019	30 Jun. 2018	31 Dec. 2018
Total assets	14,867,991	13,910,698	14,060,065
Total eligible capital in accordance with CRR/CRD IV	643,400	613,353	646,153
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR – fully loaded	19.06%	19.03%	20.97%
Total capital ratio in accordance with Art. 92(2)(c) CRR – fully loaded	19.06%	19.03%	20.97%
Return on equity (ROE) before tax	6.01%	7.78%	7.01%
ROE after tax	4.53%	6.06%	5.33%
Cost/income ratio (CIR)	61.42%	68.33%	66.96%
NPL ratio	1.28%	1.86%	1.42%

The intrayear indicators are annualised on a daily basis.

Foreword by the Management Board

Dear reader,

The current low interest rate policy of the European Central Bank (ECB) is presenting challenges for all banks in the eurozone. But this is exactly where we can draw on one our key strengths – a strong owner, the Lower Austrian state government, which is committed to stability and reliability. Coupled with a robust, above-average Tier 1 capital ratio and our low-risk business model, this enabled us to put in a good first-half performance whilst holding our existing course, and post a solid EUR 19.9m pre-tax profit despite the worsening economic climate. Underlying operating profit, adjusted for the sale of a non-operating property in Vienna in the first half of 2018, increased once again year on year.

New lending in the first half was significantly higher year on year, and was well diversified across key business areas, in line with our strategy. The award of two PPP contracts was particularly encouraging, as it demonstrates the success of our approach to winning public sector business, which places an increased emphasis on offering structured finance.

Our clear positioning and sustainable business policies have been success factors during the current phase of persistently low interest rates and in the face of downgraded economic growth expectations. This is also reflected in improved core operating earnings: net interest income climbed by EUR 1.6m to EUR 57.3m. Net fee and commission income rose sharply year on year, to EUR 9.2m. This underlines the wisdom of the concerted expansion of our services business.

We also aim to stay on track with efforts to boost the efficiency of the entire HYPO NOE Group. The Zukunftsfit 2020 efficiency programme launched in 2016 led to a further significant cut in the "Administrative expenses" item in the first half of 2019. Administrative expenses fell by EUR 2.3m or 3.6% year on year, to EUR 61.6m.

This item already includes the full-year statutory contributions to the resolution and deposit insurance funds, and the instalment of the Austrian stability contribution, totalling EUR 13.7m, meaning that there will be no further charges in the second half of 2019. Meanwhile, our strong Tier 1 capital ratio of 19.06% as at 30 June 2019 ensures that we will not only be able to meet new and existing regulatory requirements on time, but will also have the necessary agility to take any business opportunities that arise.

As a direct consequence of our prudent business policies and the resolute implementation of our Zukunftsfit 2020 efficiency programme, we achieved a hefty seven-percentage-point year-on-year reduction in the cost/income ratio (CIR) to 61% as at 30 June 2019.

The benefits of the Group's uncompromising risk policies, and its positioning as a sound state bank with strong regional roots, were again seen in the very low non-performing loan (NPL) ratio of 1.3% as at 30 June 2019. Thanks to its excellent capital position and a business model with a strong focus on low-risk business, HYPO NOE Landesbank received a solid 'A/A-1' rating with a positive outlook from Standard & Poor's.

As a state bank, we see it as our duty to set a good example, and this includes meeting our social responsibilities. This role is underpinned by our wide-ranging sustainability policies, which actively contribute to climate and environmental protection. We are honoured by our Prime rating from leading sustainability rating agency ISS-oekom, and the fact that our imug bond ratings are among the best in the industry.

At the 13th Recommender Gala held by the Finanz-Marketing Verband Österreich (Austrian Financial Marketing Association), HYPO NOE Landesbank was praised for its "outstanding customer orientation", in the regional bank category. Following last year's accolade as "most improved bank of the year", awarded for a 52.5% increase in customer satisfaction, this new distinction reflects customers' appreciation of the extra time and space being made for personal banking, and of the simultaneous expansion of our online retail banking services.

We see digitalisation as one of the main challenges confronting our industry, and hence the HYPO NOE Group. In particular, digitalisation has changed customer behaviour. These days, almost all routine banking transactions are carried out online. At the same time, however, we believe that there will still be a need for personal advice. With this in mind, we are working hard to expand our online and mobile services, and are also giving our relationship managers sufficient time to offer quality advice.

Wolfgang Viehauser and Udo Birkner

HYPO NOE Landesbank

für Niederösterreich und Wien AG
GROUP OPERATIONAL AND FINANCIAL REVIEW
FOR THE SIX MONTHS TO 30 JUNE 2019 IN ACCORDANCE WITH IFRS

GROUP OPERATIONAL AND FINANCIAL REVIEW **5**

Economic climate 6
Financial review 9
Business segments: operational review 11
Risk report 17
Group outlook 18

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30 JUNE 2019 **20**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **27**

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES **78**

Economic climate

Global economic and financial market trends

Trade disputes and political flashpoints continued to cast a pall over the global economy in the first half of 2019. In particular, the trade conflict between the USA and China hit confidence in the manufacturing sectors of virtually all the major economies. In Europe, the still unanswered question as to how and when the United Kingdom will leave the European Union bred uncertainties which were reflected in a slowdown in corporate investment. Even in the United States, where the positive impact of last year's tax reduction is still being felt, growth has faded noticeably. The labour market has not suffered from these developments so far, and consumer expenditure has kept the economy expanding. Although the service sector performed better than industry it, too, lost steam.

To stabilise its own economy and offset the fall-out from the trade dispute with the USA, the Chinese government relaxed its fiscal policies at the start of the year. While there is not yet any definite evidence that these steps are having the desired effect, they have brought a measure of calm. Meanwhile, the major central banks have significantly altered their monetary stance since the start of the year. Instead of a further withdrawal from the accommodative monetary policies of recent years, at the end of the reporting period the indications were of interest rate reductions and expansionary measures. In January the US Federal Reserve announced an end to the cycle of interest rate increases and signalled a premature halt to the balance sheet reduction programme launched in October 2017. The Fed's pronouncements in subsequent months also pointed in this direction, with the result that by June the stock and bond markets had already priced in up to three interest rate cuts up to the end of 2019. The European Central Bank (ECB) likewise prepared the markets for the impending stimulus.

Subdued inflation also played a significant part in the ECB's decision to revert to monetary policy easing. In May, the headline inflation rate in the eurozone ran at a modest 1.2% and the core rate was 0.8%, meaning that both missed the ECB's 2% target. Mild inflation had evidently also affected expectations of future price trends. During the first half of 2019 the expectations of long-term inflation implied by the prices of financial instruments declined steadily, and the rate reached a historic low of 1.1% in June.

Contrary to the overall economic trend, but driven by monetary policy expectations, the prices of high-risk asset classes such as equities and corporate bonds, which took a beating at the turn of 2019, advanced strongly. The major stock indices had climbed by between 10% and 20% by the mid-year mark. At the same time the international bond markets benefited from the sharp fall in yields. For example, Austrian century bonds have put on a good 35% since the start of the year. Prices on the capital markets were in a tug of war between downbeat economic data and unfavourable political developments on the one hand, and supportive central bank policies on the other; so far the latter have prevailed.

Economic trends in the HYPO NOE Group's core markets

Austria

Following back-to-back boom years with growth rates of 2.7%, significantly slower growth is forecast for 2019 (2019e: Austria 1.5%; eurozone 1.2%). The global slowdown, the dip in activity in the economy of the country's main trading partner, Germany, and new vehicle emission standards faced Austrian industry with weaker export demand – particularly from the start of the second quarter onwards – after initial sales-driven output increases. Domestic demand, mainly driven by private consumption, remains a robust growth component thanks to strong employment and wage growth, fiscal stimulus, and excellent employment data, including an unemployment rate of 4.8% at year-end 2018.

Real disposable income rose by 2.4% in 2018. Domestic demand was also supported by investment in expansion, plant and equipment, which was up by 4.1% year on year. This reflects corporate lending, which jumped by a record 7% year on year in the first quarter despite moderating economic growth.

Meanwhile, home construction lending has been rising by more than 4% per year since 2016. Housing construction investment expanded by about 3% in 2018 to reach a record EUR 14.2bn. The housing price index has soared by 50 points since 2013. The main factor driving this trend is the current low interest rate environment, which has significantly enhanced the attractiveness of residential property as a form of investment. Although the construction industry is continuing to register growth, and cheap finance is still encouraging housing investment, the declining number of building permits issued in 2018 points to a gradual tapering off of the building boom.

The indebtedness of Austrian households remains low in international terms. Housing demand has decreased since the high of 71,500 completions of new dwellings in 2016, and ran at 45,400 dwellings in 2018. The demand overhang has halved since 2016, to stand at 31,000 dwellings, but is still severe in Vienna.

Austria's budget deficit narrowed sharply as a result of the economic upturn, as well as current European monetary and interest rate policy. Higher tax revenue and comparatively low government interest expenditure brought a balanced federal budget earlier than anticipated, in 2018. The debt ratio, which peaked at 84.8% of gross domestic product (GDP) in 2015, is thought to have come in significantly lower in 2018, at 74.8% (eurozone average: 86.9%). This marked reduction was facilitated by the disposal of assets of banks nationalised during the crisis.

Federal states

Growth speeded up further in most of the Austrian federal states in 2018. The impetus from export demand, which mainly affects the heavily industrialised states, strengthened significantly last year. Due to the economic upswing, employment powered ahead by about 2.5% in the industrial and construction sectors. According to the latest available data, Lower Austria marked up growth of 3.1% in 2018 – a gain of 0.4 percentage points on 2017 – to share the lead in the national growth table with Upper Austria.

The construction sector did particularly well on the back of the strong economy in 2018. Marketed construction output expanded by 4.7% year on year. However, there were wide regional variations, with a 4.4% drop in output in Burgenland, and an 8.4% gain in Vorarlberg, which had the highest growth rate. Marketed construction output in Lower Austria advanced by a substantial 5.7%.

Meanwhile, public budgets have lately been benefiting from higher tax revenues, as shown by the state government accounts for last year that have been published to date. Since 2016 Lower Austria's operating surplus has swelled by 48% to some EUR 0.5bn and its revenue has climbed by 8%.

Banking sector trends in the eurozone and CEE

In March 2019 the European Banking Authority (EBA) published an update of its Risk Dashboard. This quarterly assessment of the European banking sector was based on data for the fourth quarter of 2018 from the largest banks in the EU, representing about 80% of total sector assets. The report centred on capitalisation, asset quality and profitability trends.

It found that, all in all, EU banks' capital ratios had held steady despite the implementation of IFRS 9. The Tier 1 capital ratio (CET1, fully loaded) was down by just 20 basis points year on year as at year-end 2018, from 14.6% to 14.4%. The continued improvement in the quality of loan portfolios was particularly encouraging. The NPL ratio decreased from 4.1% to 3.2% in the course of the year. At year-end 2014 the ratio had been twice as high, at 6.5%. The average coverage ratio also ticked up, from 44.6% at year-end 2017 to 45.1% at year-end 2018. In the EBA's opinion, profitability is still a major challenge because of low interest rates. The return on assets advanced from 0.4% to 0.44%. The average net interest margin for the EU banking sector held at about 1.5% – the same level as in the previous year. The refinancing and liquidity situations brightened, and the loan-to-deposit ratio diminished further, to 117.1%, mainly reflecting increased customer deposits.

In April 2019 the Oesterreichische Nationalbank (OeNB) published its latest report on the consolidated net profit of Austrian banks, based on data up to and including end-2018. Taken as a whole, the Austrian banks have lately been benefiting from the favourable economic environment, which has manifested itself in a further increase in profitability. The consolidated end-of-period profit after tax rose by about 5% year on year, to EUR 6.9bn. The improved backdrop has also been reflected in a fall in the NPL ratio, from 3.4% at end-2017 to 2.6%. Likewise, capital adequacy has improved significantly since the outbreak of the 2008 financial crisis. The consolidated CET1 ratio of 15.4% as at end-2018 calculated by the OeNB was well above the EBA average of 14.6%. In Austria as overall, there was a decline of 20 basis points. The measures taken by the Austrian banking regulator led to a further reduction in the volume of outstanding foreign currency loans to retail and corporate customers. According to the central bank, there was a decrease of about 7% as compared to 2017, and such lending has shrunk by about 65% since its high in 2010.

The CEE banking sector continued to perform solidly. Better macroeconomic conditions resulted in yet another jump in loan quality. According to the EBA Risk Dashboard, the unweighted NPL ratio in the CEE region at end-2018 was down to 4.3% from 5.6% a year earlier. The progressive rise in deposits since 2011 has resulted in a comfortable loan-to-deposit ratio of well below 100%. With regard to profitability, the CEE banks are outperforming their West European counterparts, in terms of both net interest margin and return on assets. Progress towards the digital transformation of business models is also apparent.

Financial review

Key developments in the first half of 2019

Earnings (IFRS)

"Profit before tax" was EUR 19.9m (H1 2018: EUR 25.5m).

Although interest rates remain low, "Net interest income" advanced by EUR 1.6m, to EUR 57.3m (H1 2018: EUR 55.7m).

"Net fee and commission income" rose year on year, to EUR 9.2 (H1 2018: EUR 7.7m).

"Net gains on financial assets and liabilities" totalled EUR 3.3m; this was mainly accounted for by the sale of a debt instrument.

Rigorous implementation of the efficiency programme resulted in a 3.6% or EUR 2.3m fall in "Administrative expenses", which ended the first half on EUR 61.6m (H1 2018: EUR 63.9m). This was due primarily to reductions in staff costs and other administrative expenses. As in the comparative period, "Administrative expenses" in the opening six months of 2019 included the special stability contribution payment, as well as the contributions to the resolution fund and the deposit insurance fund (totalling EUR 13.7m). IFRIC 21 required expensing of all of the latter item in the first half of 2019, and there will be no further charges in the next two quarters.

"Net other operating income" was down year on year, at EUR 8.1m; this was due to significant non-recurring income in the first half of 2018.

The "Impairment losses/gains – IFRS 9 ECL" item was positive by EUR 3.4m.

The decrease in "Administrative expenses" and "Profit before tax" is reflected in the following financial indicators:

		Q2 2019	Q2 2018	2018	2017
Return on equity (ROE) before tax*	Profit before tax/ave. consolidated equity	6.01%	7.78%	7.01%	5.86%
Return on equity after tax*	Profit for the period/ave. consolidated equity	4.53%	6.06%	5.33%	4.40%
Return on assets	Profit for the period/total assets	0.20%	0.29%	0.26%	0.20%
Cost/income ratio	Operating expenses/operating income	61.42%	68.33%	66.96%	67.78%
NPL ratio	Carrying amounts of non-performing financial assets – AC (excl. banks)/financial assets – AC (excl. banks)	1.28%	1.86%	1.42%	1.67%

*Intrayear indicators annualised on a daily basis

Changes in total assets and consolidated equity (IFRS)

As at 30 June 2019 the HYPO NOE Group's total assets were EUR 0.8bn or 5.8% up on their level at year-end 2018, at EUR 14.9bn. This gain was chiefly accounted for by the Group's core business, and in particular by the "Financial assets – AC" item, which rose by EUR 0.7bn. There was a corresponding increase in "Financial liabilities – AC".

As at 30 June 2019, IFRS consolidated equity including non-controlling interests stood at EUR 672.3m. This represented an EUR 8.9m increase on the position at year-end 2018, and was partly attributable to the dividend payment of EUR 3.5m.

Changes in consolidated own funds (CRR/CRD IV[1])

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

Consolidated eligible capital in accordance with the CRR was EUR 643.4m as at 30 June 2019 (31 Dec. 2018: EUR 646.2m). Surplus capital as at the end of the reporting period was EUR 373.3m (31 Dec. 2018: EUR 399.6m), in comparison with a capital requirement of EUR 270.1m (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 19.06% as at 30 June 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%).

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

Business segments: operational review

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

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

Working in collaboration with HYPO NOE Leasing, the Group's parent company HYPO NOE Landesbank predominantly serves large state and local government clients. The strategy of HYPO NOE Immobilien Beteiligungsholding and its subsidiaries and associates is geared towards providing services across the entire real estate management value chain. HYPO NOE Real Consult specialises in construction management, while HYPO NOE First Facility is a full-line facility management service provider.

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. This effort was aimed at realigning its strategy and strengthening internal collaboration. There was a particularly strong focus on the issue clusters relating to partnerships with customers, the customer service experience and digital innovation. The actions that have already been formulated will be rolled out in the course of 2019, so as to put the Bank on the right course as it heads towards 2025.

Actioning of the ongoing Zukunftsfit 2020 efficiency programme currently centres on optimising processes and the business model. The measures planned or in the course of implementation are all designed to achieve a sustainable improvement in the HYPO NOE Group's profitability.

Rating agency Standard & Poor's gives HYPO NOE Landesbank a solid single A rating with a positive outlook. Moody's high Aa1 ratings on HYPO NOE Landesbank's public sector and mortgage cover pools also remained in place. In terms of sustainability, the Lower Austrian state government bank is among the best in the business. The C rating with Prime status from ISS-oekom is testimony to HYPO NOE Landesbank's exceptionally strong commitment to environmental and social responsibility.

Figures for the individual segments, as well as supplementary narrative information, are shown in Note 5.1 Business segment information.

Public Sector segment

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 the Lower Austria and Vienna. The department also has the strategic objective of winning additional market shares in the neighbouring states of Burgenland, Styria and Upper Austria. HYPO NOE Landesbank is strongly wedded to relationship banking. Close customer relationships and quality advice are key in today's market environment. 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. In the interests of further expansion of its local government business and face-to-face contact with municipal decision-makers, HYPO NOE Landesbank again attended the annual conference of the Association of Austrian Municipalities, held for the 66th time, in Graz.

In response to growing demand, besides the traditional forms of public finance the Bank is increasingly offering bespoke structured solutions. HYPO NOE Leasing is the Group specialist responsible for developing and introducing structured finance products, notably leasing, public-private partnership (PPP) and forfaiting solutions.

HYPO NOE Leasing has a record of implementing education and health sector projects, and during the first half of 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 comprise kindergartens and various school types, for totals of 1,100 children. Conventional local authority lending and the structured infrastructure finance business both performed well during the period.

Religious Communities, Interest Groups and Agriculture

Finance for social facilities was again the predominant activity at Religious Communities, Interest Groups and Agriculture (KIA) during the first half of 2019. The department continued to manage existing building projects undertaken for the church customer group, acquired new customers, and won contracts with longer terms. Some of the construction projects are scheduled for completion several years ahead.

KIA's product portfolio includes funding 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. Bespoke finance, partly on a cover pool basis, has contributed to a persistently high level of customer satisfaction. Time deposits and investments in low-risk securities also form part of these customer relationships.

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 accounting for many Lower Austrian state government grants, such as those to schools and nurseries.

In recent years the Group has assisted the state government with the technical and organisational implementation of large-scale home loan subsidy schemes, and it now also acts as a point of contact for questions regarding administrative issues from the various banks involved in disbursements. By June 2019, 16 tranches of Lower Austria's new high-volume home loan scheme had been processed in 11 tendering rounds; a twelfth is currently under way.

Real Estate Customers segment

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. Its activities also focus on investment and payments.

Operations in the first half of 2019 again centred on the Lower Austria and Vienna core markets, but the department has also recently been pressing ahead with expansion into Upper Austria and Styria. 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.

Provision of adequate and affordable housing is a central objective of Lower Austria's housing construction and subsidy policy. The Lower Austrian state government is playing its part by extending guaranteed bank loans. The Housing Development Department won a state government tender to provide a tranche of subsidised financing, for which the EIB was brought on board as a refinancing partner. The department will continue to offer tailor-made financing solutions by way of conventional mortgages with a view to maintaining the supply of affordable housing in its core market. There was a sharp increase in the volume of funding for non-profit housing associations during the reporting period.

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 both 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.

The department again succeeded in growing its lending volume in the first half of 2019, although it prioritised earnings potential and maintaining a balanced risk profile.

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 wide product range and its ability to offer bespoke finance solutions.

In the first half of 2019 the department continued to operate in its target markets – principally Austria, Germany 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. The first half of 2019 was also marked by increased exposure to club deals and syndicated project finance. In addition, HYPO NOE Landesbank acted as a consortium lead manager and arranger. This helped to extend the pool of potential customers, and opened up opportunities to generate additional fees and commissions.

Low interest rates and record low returns on alternative investments have led to sharply increased demand across most real estate categories. Central Europe's commercial and residential property markets are still among the most attractive in the world for global investors. Real Estate Project Finance gives pride of place 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. Portfolios of mixed-use properties also greatly diversify risk due to the wide variety of locations and tenants. During the first six months of 2019, operations again centred on the Austrian and German markets, and on neighbouring EU member states. The department is keeping track of macroeconomic developments and regional property market trends in its foreign target markets.

Retail and Corporate Customers segment

Retail Customers

HYPO NOE Landesbank's branches ensure that retail, self-employed and corporate customers in its core 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" pillar offerings were further extended, with the emphasis on subsidies. Close cooperation with the State of Lower Austria enables the Group to offer end-to-end support on loans and subsidies, ensuring sound advice and rapid processing. In 2018 HYPO NOE Landesbank entered into a successful consumer credit partnership with specialist finance provider TeamBank Österreich. This line-up is another step in the long-term expansion of the HYPO NOE Group's service business, based on its well-tried advisory process. In the "accounts and cards" area, new account packages which, besides numerous other benefits, in some cases feature comprehensive account and purchase protection, have gained a strong foothold. The "saving and investment" business line also generated steady earnings thanks to the attractive integrated product range. During the first half of 2019 intensive, customer-centred care of the loan portfolio led to a further marked reduction in the number of foreign currency loans.

A new branch design concept, attuned to the changing conditions on the retail customer market, was constantly adapted and refined. The conversion of the Hütteldorf branch, which kicked off in the second quarter, extended the trend begun by the opening of Stockerau branch last October. The new look includes spaces for in-depth advice for customers making key life decisions, especially in connection with borrowing and retirement planning. Customers can take care of everyday banking transactions in the self-service foyer. In parallel, the Group has pushed ahead with its drive 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 an even more secure login and transfer approval process.

HYPO NOE Landesbank won the "Best in Situ Customer Advice" category of the Service Award, conferred by the Österreichische Gesellschaft für Verbraucherstudien (Austrian Society for Consumer Studies) in cooperation with business magazine Trend; 216 companies from a variety of industries were tested. And 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 orientation", in the regional bank category.

Corporate Customers

This department is responsible for providing a comprehensive range of services aimed at the Group's corporate customers. It is divided into several customer service teams. Besides a team devoted to small and medium-sized enterprises (SMEs) there is a group that focuses on large corporates, as well as a specialised team responsible for structured transactions and product solutions, especially subsidised loans and export finance.

Proximity to customers is a key concern. Both SMEs and large corporates in Lower Austria and Vienna are served by competence centres in St. Pölten and the capital. As regards services for large corporates, the department's overriding objective is to be an expert, long-term partner to leading Lower Austrian businesses. Selected companies in other Austrian federal states – especially Burgenland, Styria and Upper Austria – as well as Germany also form part of its customer base.

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

Corporate Customers further expanded its operations and continued the effective implementation of its growth strategy. This again enabled the HYPO NOE Group to act as an engine of the Lower Austrian and Viennese economies. Another goal is to increasingly partner companies with their investment activities and – in today's low interest environment – offer tailored securities solutions. In line with the Group's digitalisation strategy, 2019 will see a scheduled comprehensive upgrade of the electronic banking system (payments) for corporates.

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

Treasury & ALM segment

Treasury and Funding

The international capital markets again saw lively issuance in the first half of 2019. HYPO NOE Landesbank used the benign market environment to step up activity in the unsecured private placement segment. Virtually all of the planned unsecured market funding was wrapped up early in the year. In addition, in May 2019 the Bank succeeded in quickly placing a 5.5-year CHF 100m senior preferred benchmark bond.

HYPO NOE Landesbank is well placed in refinancing terms, and draws its liquidity from conventional capital market transactions and deposits, as well as standard repo transactions and ECB tenders. It used its close relationships with development banks as an additional source of funding. The stability of deposit taking from institutional investors shows that HYPO NOE Landesbank remains a valued business partner for banks, insurance companies, pension funds, utilities and investment companies.

Nostro

Due to the attractive spreads at the start of 2019, most of the scheduled purchases were carried out in the first three months of year. As in the past, the Bank mainly invested in new issues of government and covered bonds with a volume-weighted average rating of AA for the liquidity portfolio.

ALM

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

Institutional Customers

Close cooperation with institutional customers is central to HYPO NOE Landesbank's business model. HYPO NOE Landesbank constantly and carefully nurtures these long-standing, trust-based partnerships by actively maintaining its direct customer relationships with other banks, insurance companies, pension funds, utilities and investment companies. The resultant focus, as part of an ongoing investor dialogue, is on relations with European partners, although there has lately also been growing interest from investors in some countries outside Europe.

Investor Relations

Timely, comprehensive and transparent capital market communications are a central concern for the HYPO NOE Group. Investors and analysts are regularly kept up to date with the Bank's business performance and recent developments. This relies on face-to-face communication and extensive online offerings (www.hyponoe.at/en/ir).

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 took place, and again met with strong interest from numerous capital market partners in Austria and abroad.

During the first half of 2019, the investor relations effort chiefly focused on direct contact with investors and analysts through "one-on-ones" and on attendance at investor conferences. These activities were attuned to the goal of further diversifying the investor base beyond Austria and Germany, and particularly extending it to other, selected European markets.

Periodic and one-off, event-related publications are posted in the Investor Relations section of the HYPO NOE website. These include the regular consolidated reports, presentations and factsheets for investors, as well as information on the current credit, covered bond and sustainability ratings, and HYPO NOE Landesbank's issuance programme. In addition, the investor relations newsletter keeps readers up to date with current events.

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. The service portfolio of the wholly-owned subsidiaries comprises construction management with a focus on special-purpose public-sector properties, as well as facility management in Austria and selected CEE countries.

The strategic realignment of this area of operations led to the sale of the estate agency and property management businesses to Group associates during the first half of 2019. Together with these partners HYPO NOE Immobilien continues to offer a comprehensive package of services spanning the entire real-estate value chain. In line with HYPO NOE Landesbank's strategy, in future the company will concentrate still more strongly on Lower Austria as its core market. To this end, involvement in construction management activities at local government level – in particular, town and village centre redevelopment – and in small projects is being expanded. HYPO NOE First Facility GmbH is also tightening its focus on serving Lower Austrian core companies and the public sector.

Corporate Center segment

Business activities that do not fall under other segments are reported under the Corporate Center segment. This is also used for consolidation effects where they are not recognised under other segments.

Participations

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

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

Foreign branches, representative offices and branches

HYPO NOE Landesbank für Niederösterreich und Wien AG maintained no foreign branches during the first half of 2019, but operated representative offices in Bucharest, Budapest, Prague and Sofia. HYPO NOE Landesbank has operated a branch office at Wipplingerstrasse 4, 1010 Vienna since 2008.

As at 30 June 2019 HYPO NOE Landesbank had 27 branches in Lower Austria and Vienna.

Risk report

The objectives and methods of risk management, and the explanations of material risks form part of the notes (see Note 6.4 Risk management).

Group outlook

Outlook for Group performance

Over the remainder of 2019 the emphasis will be on further increasing the Group's profitability, enhancing its asset quality and maintaining a strong capital position. The point of maintaining robust capital ratios is not just to be sure of promptly complying with new and existing regulatory requirements, but also to help the Group respond flexibly to business opportunities.

As regards the public sector, the focus is on developing special financing models such as PPP solutions, and on increasing the granularity of the lending portfolio by serving more local government customers in Lower Austria and neighbouring federal states.

Given the continued growth in demand for owner-occupied housing in the Group's core Lower Austrian and Viennese markets, the volume of finance for non-profit and commercial housing construction can be expected to climb. The HYPO NOE Group is playing a major part in safeguarding access to affordable housing in Lower Austria by providing inexpensive refinancing facilities – for instance, through closer cooperation with development banks.

The successful efforts to win new corporate customers are being stepped up. At the same time, subsidised loans and export finance have been added to the product range. In the retail customer business, the new branch concept, which provides space for in-depth advice, will be rolled out to a further site in Vienna in the second half of 2019. Other improvements to the branch network, aimed at increasing the efficiency of the retail business, are scheduled. As regards the product range, the inclusion of third-party products is under constant evaluation – not least with a view to achieving a sustained increase in net fee and commission income. Besides the introduction of multi-banking compatibility, there are plans to upgrade online sales completion and launch a new mobile payment process.

During the second half of 2019 there will be a major effort to press ahead with restructuring the real estate services activities folded into HYPO NOE Immobilien Beteiligungsholding GmbH. Construction and facility management will remain an integral part of the Group's real-estate value chain. In addition, the Group will actively seek out new partnerships, structures will be streamlined and potential disposals of existing investments evaluated.

Remaining refinancing needs in the second half of 2019 will be met by scheduled covered bond and senior unsecured bond issues, while recourse to all the usual capital market instruments is possible if necessary. A key goal is to maintain the high level reached by deposits after their constant growth in the past few years.

Economic environment

The current plethora of political tensions looks likely to persist, at least in the short term, and is depressing the growth outlook. Nevertheless, the available data do not indicate an imminent recession. The central banks certainly appear to be prepared to take the necessary action to prevent serious damage to the economy. Further easing by the central banks carries the risk that interest rates will stay stuck at historic lows, which would diminish the likelihood of a return to normal conditions in the medium term.

Due to the cooling of the world economy and the resultant drop in export demand, Austria's growth rate is expected to decline to 1.5% in 2019. Nevertheless, it is set to exceed the eurozone average again this year. A slight improvement is anticipated for the following two years, with growth put at 1.6% in both. Further evidence of a slowdown in activity is provided by the Economic Sentiment Indicator, which presents a darkening picture of confidence and orders in the industrial, consumer and retail sectors. There have also been slight drops in the readings for the construction and service sectors, but these still show majorities of respondents taking an optimistic view. As a result of weakening world trade, export growth is put at only 2% in 2019, but it is currently seen accelerating to 3.4% in 2021. Unemployment is predicted to remain low, at about 4.7% in 2020 and 2021.

The worsening economic climate will also be reflected at federal state level. This year regional growth rates are expected to slide to a range of 1.1-1.7%. The forecasts for economic growth in Lower Austria in 2019, at 1.4% and 1.7%, are respectively in the mid or upper ranges of state growth rates. Employment will continue to grow, and personal consumption to support domestic demand, in 2019.

The exchequer is benefiting from a favourable environment for tax revenues and from rock-bottom interest payments. These factors should lead to a further improvement in the budget balance, to a surplus of 0.4% of GDP in 2020 and of 0.5% of GDP in 2021, while government debt is projected to shrink to 65.3% by 2021 – below its level in 2007.

St. Pölten, 9 August 2019
The Management Board

Wolfgang Viehauser
Management Board Member Markets
and Spokesman

Udo Birkner
Management Board Member
Finance, Risk & Operations

HYPO NOE Landesbank für Niederösterreich und Wien AG

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30 JUNE 2019 IN ACCORDANCE WITH IFRS

GROUP OPERATIONAL AND FINANCIAL REVIEW **5**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30 JUNE 2019 **20**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 21
CONSOLIDATED STATEMENT OF FINANCIAL POSITION 23
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 24
CONSOLIDATED STATEMENT OF CASH FLOWS 25

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **27**

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES **78**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit or loss (EUR '000)	(Notes)	H1 2019	H1 2018	*	Change
Interest and similar income not measured using the effective interest method	(3.1)	104,569	106,174	*	-1,604
Interest and similar income measured using the effective interest method	(3.1)	122,059	121,415	*	644
Interest and similar expense	(3.2)	-169,390	-172,306	*	2,916
Dividend income		57	375		-318
Net interest income		57,295	55,658		1,637
Fee and commission income		10,559	9,095		1,463
Fee and commission expense		-1,385	-1,360		-25
Net fee and commission income	(3.3)	9,174	7,735		1,438
Net measurement gains or losses		3,231	-3,232	*	6,463
Net gains or losses arising from the derecognition of financial assets		79	-724		803
Net gains or losses on financial assets and liabilities	(3.4)	3,310	-3,956		7,266
Net other operating income	(3.5)	8,098	20,767	*	-12,668
Administrative expenses	(3.6)	-61,600	-63,879		2,279
Impairment losses/gains on financial assets - IFRS 9 ECL	(3.7)	3,374	8,304	*	-4,930
Net gains or losses on investments accounted for using the equity method	(3.8)	253	918	*	-665
Profit before tax		19,904	25,548		-5,644
Income tax expense	(3.9)	-4,913	-6,177		1,264
Profit for the period from continuing operations		14,991	19,371		-4,380
Earnings from discontinued operations	(3.10)	-	512		-512
Profit for the period		14,991	19,883		-4,892

*The previous year's figures include restatements in accordance with IAS 8 (see Note 1 Accounting standards).

Other comprehensive income (EUR '000)		H1 2019	H1 2018	*
Profit for the period		14,991	19,883	
Items that will not be reclassified to profit or loss		-473	362	
Change in equity instruments measured at fair value through other comprehensive income (FVOCI) (before tax)		-196	31	*
Change in actuarial gains or losses (before tax)		-435	452	
Change in deferred tax not recognised in profit or loss		158	-121	*
Items that may be reclassified subsequently to profit or loss		-2,101	-5,103	
Change in debt instruments measured at FVOCI (before tax)		-996	-6,653	
Change in debt instruments measured at FVOCI reclassified to profit or loss (before tax)		-1,742	-	
Change in hedges not recognised in profit or loss (time value, forward elements and foreign currency basis spread) (before tax)		-65	-152	
Exchange differences on translating foreign operations accounted for using the equity method (before tax)		-	-	
Change in deferred tax not recognised in profit or loss		701	1,701	
Other comprehensive income		-2,575	-4,741	
Total comprehensive income		12,416	15,142	
Non-controlling interests	(3.11)	-238	-211	
Total comprehensive income attributable to owners of the parent		12,178	14,931	

*The previous year's figures include restatements in accordance with IAS 8 (see Note 1 Accounting standards).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets (EUR '000)	(Notes)	30 Jun. 2019	31 Dec. 2018
Cash and balances at central banks	(4.1)	443,618	417,130
Financial assets - HFT	(4.2)	468,262	428,983
Financial assets - mandatorily FVTPL	(4.3)	257,895	262,475
Financial assets - FVOCI	(4.4)	649,809	760,216
Financial assets - AC	(4.5)	12,385,251	11,640,675
Positive fair value of hedges (hedge accounting)	(4.6)	490,104	377,134
Investments accounted for using the equity method	(4.7)	23,003	23,148
Investment property	(4.8)	39,114	39,608
Intangible assets	(4.9)	558	755
Property, plant and equipment	(4.10)	68,498	66,779
Current tax assets	(4.11)	13,028	12,147
Other assets	(4.12)	28,851	31,013
Total assets		14,867,991	14,060,065

Equity and liabilities (EUR '000)	(Notes)	30 Jun. 2019	31 Dec. 2018
Financial liabilities - HFT	(4.13)	434,787	391,428
Financial liabilities - FVO	(4.14)	4,250	3,500
Financial liabilities - AC	(4.15)	12,764,932	12,106,624
Negative fair value of hedges (hedge accounting)	(4.16)	791,430	665,173
Provisions	(4.17)	59,148	58,711
Current tax liabilities	(4.18)	15,460	13,574
Deferred tax liabilities	(4.18)	26,567	27,696
Other liabilities	(4.19)	97,649	128,507
Tier 2 capital	(4.20)	1,453	1,453
Equity	(4.21)	672,315	663,398
Equity attributable to owners of the parent		664,033	655,420
Non-controlling interests		8,282	7,978
Total equity and liabilities		14,867,991	14,060,065

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 Jun. 2019, EUR '000	Balance at 1 Jan. 2019 (IFRS 9)	Profit for the period	Dividends paid	Other comprehensive income	Transfers	Balance at 30 Jun. 2019 (IFRS 9)
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	398,240	14,753	-3,500	-	-64	409,429
Other reserves composed of:						
Actuarial gains and losses	-3,416	-	-	-326	-	-3,743
Available-for-sale financial instruments	N/A	N/A	N/A	N/A	N/A	N/A
FVOCI debt instruments	15,882	-	-	-2,053	-	13,829
FVOCI equity instruments	986	-	-	-147	-	839
Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
Hedges (time value, forward elements and foreign currency basis spread)	-77	-	-	-49	-	-125
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	655,419	14,753	-3,500	-2,575	-64	664,033
Non-controlling interests	7,978	238	-	-	66	8,282
TOTAL EQUITY	663,398	14,991	-3,500	-2,575	2	672,315

30 Jun. 2018, EUR '000	Balance at 31 Dec. 2017 (IAS 39)*	Remeasurement	Balance at 1 Jan. 2018 (IFRS 9)	Profit for the period	Dividends paid	Other comprehensive income	Transfers	Balance at 30 Jun. 2018 (IFRS 9)
Share capital	51,981	-	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	191,824	-	-	-	-	191,824
Retained earnings*	381,321	-15,953	365,368	19,669	-3,500	-	-	381,537
IAS 19 reserve	-5,191	-	-5,191	-	-	339	-	-4,852
Available-for-sale reserve*	47,010	-47,010	N/A	N/A	N/A	N/A	N/A	N/A
FVOCI debt instrument reserve	N/A	24,153	24,153	-	-	-4,990	-	19,163
FVOCI equity instrument reserve	N/A	889	889	-	-	23	-	912
Revaluation surplus - non-current assets held for sale and discontinued operations	-53	-	-53	-	-	-	-	-53
Revaluation surplus - hedge (time value, forward elements and foreign currency basis spread)	N/A	-	-	-	-	-114	-	-114
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	666,891	-37,920	628,971	19,669	-3,500	-4,742	-	640,398
Non-controlling interests	8,385	-6	8,379	211	-	-	-	8,590
TOTAL EQUITY	675,276	-37,926	637,350	19,880	-3,500	-4,742	-	648,988

*The previous year's figures include restatements in accordance with IAS 8 (see Note 1 Accounting standards).

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	30 Jun. 2019	31 Dec. 2018
Profit for the period (before non-controlling interests)	14,991	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	3,339	6,475
Allocations to and reversals of provisions and risk provisions	-1,051	8,639
Losses on disposal of financial assets and property, plant and equipment	-179	-8,317
Net measurement losses on financial assets and liabilities	-2,529	-13,652
Other adjustments	16,795	-9,126
Changes in assets and liabilities due to operating activities after adjustments for non-cash components		
Financial assets – AC	-731,559	-75,380
Financial assets – mandatorily FVTPL	9,460	113,410
Financial assets – FVOCI	109,949	88,546
Other operating assets	-8,255	15,904
Financial liabilities – AC	654,289	-188,735
Other operating liabilities	-34,644	-15,671
CASH FLOWS FROM OPERATING ACTIVITIES	30,607	-41,463
Proceeds from sale of/redemption of:		
Property, plant and equipment, intangible assets and investment property	146	235
Purchase of:		
Participations	-	-108
Property, plant and equipment, intangible assets and investment property	-917	-2,397
Proceeds from disposal of subsidiaries	152	8,641
CASH FLOWS FROM INVESTING ACTIVITIES	-619	6,370
Dividends paid	-3,500	-3,972
CASH FLOWS FROM FINANCING ACTIVITIES	-3,500	-3,972
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	-	-2
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	417,130	456,197
Cash flows from operating activities	30,607	-41,463
Cash flows from investing activities	-619	6,370
Cash flows from financing activities	-3,500	-3,972
Effect of exchange rate changes on cash and cash equivalents	-	-2
CASH AND CASH EQUIVALENTS AT END OF PERIOD	443,618	417,130
PAYMENTS FOR TAXES, INTEREST AND DIVIDENDS (included in cash flows from operating activities)		
Income taxes refunded/paid	-3,571	-2,835
Interest received	234,229	474,636
Interest paid	-176,706	-362,246
Dividends on FVOCI investments received	57	336
Dividends on FVTPL investments received	-	234
Dividends received from associates	707	482
Dividends received from joint ventures	160	167

Changes in liabilities arising from financing activities

EUR '000	Total 1 Jan. 2019	Cash flows	Non-cash changes	30 Jun. 2019
Subordinated debt	1,453	-	-	1,453
Liabilities from financing activities	1,453	-	-	1,453

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

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS AND GOVERNING BODIES

GROUP OPERATIONAL AND FINANCIAL REVIEW **5**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30 JUNE 2019 **20**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **27**

Risk management 66
Events after the reporting period 76

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES **78**

1. Accounting standards

The condensed interim consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG (hereafter "the HYPO NOE Group") as at 30 June 2019 were drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IASs) issued by the International Accounting Standards Board (IASB), as well as the interpretations issued by the Standing Interpretations Committee (SIC) and the IFRS Interpretations Committee (IFRIC).

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.

IAS 34 was applied to preparation of this interim report. Essentially the same accounting policies were applied to this HYPO NOE Group interim report as to the annual report as at 31 December 2018, but taking account of new standards which are mandatory for financial years beginning on or after 1 January 2019.

The interim consolidated financial statements do not contain all of the information required for full annual financial statements, and should therefore be read in conjunction with the consolidated annual financial statements as at 31 December 2018.

Adjustments in accordance with IAS 8

Organisational restructuring and resultant management changes necessitated amendments to the presentation of the 2018 annual report; these had not been implemented in the 2018 semi-annual financial report. Detailed disclosures were made in the "Accounting standards" section of the 2018 annual report.

The point-in-time (PiT) PD curves for the corporates and retail risk exposure classes were updated in the course of preparing the semi-annual financial statements as at 30 June 2019. The adjustments mainly reflect the OeNB's updated forecasts published in June 2019. The adjustments related to the PiT PD curves take account of forward-looking information based on expected macroeconomic developments. These are changes in accounting estimates as defined by paragraph 32 IAS 8 which are applied prospectively.

Adjustments to the concepts, models and parameters used in the impairment methodology established by IFRS 9 were implemented in the second half of 2018. The most important changes are outlined below:

- Move in the quantitative staging process from a fixed-value approach to one based on segments, lead times and residual maturities;
- Estimate of segment-specific, multi-year probability of default based on four risk exposure classes with homogeneous credit risk characteristics (retail, corporates, sovereigns and institutions) instead of a single-segment approach. The following approach was selected:
    - Preparation of a multi-year retail PD curve based on internal empirical data
    - Preparation of a sovereign PD curve using external global rating migration data based on empirical procedures
    - Preparation of corporates and institutions PD curves using external global default data based on empirical procedures
    - Refinement and separation of concepts for PiT adjustment of the retail and corporate PD curves
- Estimate of uncollateralised retail loss given default based on internal empirical default data
- General revision of loss given default including consideration of discounting based on the duration of realisation in the estimate of loss given default
- Calculation of the maturity of transactions with no fixed maturity date using internal empirical data
- Change in methods used for certain rating concepts

This represents a change in accounting policy in the meaning of paragraph 14 IAS 8 that was retrospectively applied in order to achieve comparable reporting periods, and convey more reliable and relevant information in the financial statements.

New and amended standards

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	30 Jun. 2019	31 Dec. 2018
Land and buildings	2,578	2,821
Vehicles	111	144
Parking spaces	155	186
IT equipment	36	44
Rights of use	2,881	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

Annual Improvements to IFRS Standards, 2015-2017 Cycle

The improvements relate to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs. Application is mandatory from 1 January 2019. These amendments will not affect the Group, as none of the aforementioned clarifications cover transactions executed in the first half of 2019.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

Application is mandatory from 1 January 2019. These amendments will not have a material effect on the HYPO NOE Group.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

Application is mandatory from 1 January 2019. Again, these amendments will not have a material impact on the HYPO NOE Group.

IFRIC 23 Uncertainty over Income Tax Treatments

Application is mandatory from 1 January 2019. The amendments will not materially affect the HYPO NOE Group.

IFRS 9 Prepayment Features with Negative Compensation (Amendments to IFRS 9)

Application is mandatory from 1 January 2019. The amendments relate to the measurement of financial assets with symmetric prepayment options at amortised cost or at fair value through other comprehensive income. As the number of such assets and the level of negative compensation is low, the amendments will not have a material effect on the Group's financial statements.

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:

Amendments to IFRS 3 Business Combinations

Application is mandatory from 1 January 2020. The clarifications related to sets of activities and assets are not expected to have any effect on the HYPO NOE Group.

Definition of materiality – 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.

IFRS 17 Insurance Contracts

Application is mandatory from 1 January 2021. Application is unlikely to have an impact on the HYPO NOE Group, as none of the Group's insurance contracts are covered by IFRS 17.

2. Changes in the scope of consolidation

The consolidation of the HYPO NOE Group includes all subsidiaries that are directly or indirectly controlled by the parent, and 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. Apart from the parent, 64 Austrian subsidiaries were included in consolidation in the previous reporting period. Eleven companies are accounted for using the equity method (31 Dec. 2018: nine).

Changes in 2019

The previously consolidated company HYPO NOE Valuation & Advisory GmbH in Liqu. 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.

A total interest of 8.9% in PINUS Grundstücksvermietungs Gesellschaft m.b.H., a consolidated company, was divested by way of transactions entered into the register of companies on 22 May, 29 May and 5 June 2019.

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.

3. Notes to the statement of comprehensive income

In the first half of 2019 the Group recorded a highly satisfactory year-on-year net gain of EUR 1,673thsd in "Interest and similar income measured using the effective interest method" and "Interest and similar expense" (see Notes 3.1 and 3.2). The Retail and Corporate Customers segment made a significant contribution to this increase, due to its success in attracting more new business than in the like period of 2018 despite persistently stiff competition. Refinancing costs fell during the reporting period.

3.1 Interest and similar income

EUR '000	H1 2019	H1 2018
Interest and similar income not measured using the effective interest method	104,569	106,174
Financial assets and liabilities - HFT	45,441	46,453
Financial assets - mandatorily FVTPL	1,223	1,590
Hedges (hedge accounting)	56,723	57,090
Other interest and similar income	1,183	1,041
Interest and similar income measured using the effective interest method	122,059	121,415
Financial assets - FVOCI	9,793	11,191
Financial assets and liabilities - AC	96,942	95,364
Current finance lease income	15,324	14,861
Total	226,628	227,589

3.2 Interest and similar expense

EUR '000	H1 2019	H1 2018
Interest expense on:		
Financial assets and liabilities - HFT	-44,048	-45,152
Financial liabilities - mandatorily FVTPL	-14	-
Financial assets and liabilities - AC	-76,165	-76,862
Hedges (hedge accounting)	-49,163	-50,292
Total	-169,390	-172,306

3.3 Net fee and commission income

H1 2019, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury &ALM	Real Estate Services	Corporate Center	Total
Fee and commission income	1,762	590	8,007	76	-	124	10,559
Securities and custody account business	78	8	2,869	50	-	10	3,015
Payment transactions	292	338	2,882	38	-	20	3,570
Foreign exchange, foreign notes and coins, and precious metals	4	2	100	1	-	2	109
Other services	31	90	812	-	-	67	999
Other fee and commission income	1,357	152	1,344	-13	-	25	2,866
Fee and commission expense	-31	-5	-1,056	-193	-1	-98	-1,385
Securities and custody account business	-2	-	-410	-17	-	-13	-443
Other services	2	-	-116	-89	-	-69	-273
Other fee and commission expenses	-31	-5	-529	-87	-1	-16	-669
Total	1,731	585	6,951	-117	-1	25	9,174

H1 2018, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Total
Fee and commission income	1,732	541	7,005	-202	-	19	9,095
Securities and custody account business	147	6	2,906	-237	-	7	2,829
Payment transactions	317	313	2,478	12	-	6	3,127
Foreign exchange, foreign notes and coins, and precious metals	4	1	70	-	-	2	77
Other services	1	97	549	-	-	-	646
Other fee and commission income	1,264	124	1,003	22	-	2	2,415
Fee and commission expense	-28	-7	-976	-371	-1	23	-1,360
Securities and custody account business	-	-	-427	-14	-	47	-394
Other services	-7	-	-84	-180	-1	-13	-285
Other fee and commission expenses	-20	-7	-465	-178	-	-11	-681
Total	1,705	534	6,029	-573	-1	42	7,735

The tables above show that net fee and commission income rose by EUR 1,438thsd year on year in the reporting period. This was due entirely to increased fee and commission income, and all of the operating segments contributed. The improvement was attributable to growth in payment transactions as well as a successful partnership with specialist finance provider both of which had a positive impact on fee and commission income. Meanwhile Treasury generated additional commissions on securities business.

3.4 Net gains or losses on financial assets and liabilities

"Net gains or losses on financial assets and liabilities" are largely made up of "Measurement gains or losses" and "Net gains or losses arising from the derecognition of financial assets" (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 net measurement gains or losses contained in "Financial assets – AC" and "Financial assets – FVOCI" also include direct amortisation and impairment and write-offs, and receipts from written-off receivables, as well as gains and losses on non-substantial modifications.

The net gains or losses on the measurement of hedged risk with respect to underlyings (basis adjustments) and the corresponding valuation of the hedges are shown under net measurement gains or losses on hedges. Net measurement gains or losses on hedges (hedge accounting) represent the total ineffectiveness of fair value hedges.

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

The "Financial assets – mandatorily FVTPL" and "Financial assets and liabilities – FVO" items include the HETA contingent additional purchase price; this is based on an internal model which is explained in the 2018 annual report.

EUR '000	H1 2019	H1 2018
Net measurement gains or losses on:	3,231	-3,232
Disposals	1,742	1,143
Financial assets - FVOCI	1,742	1,143
Financial assets and liabilities	2,375	-2,392
Financial assets and liabilities – AC	-111	415
Financial assets – mandatorily FVTPL	4,881	-2,909
Financial assets and liabilities – HFT	-1,645	101
Financial assets and liabilities – FVO	-750	-
Hedges	-886	-1,983
Net gains or losses on hedged underlying transactions (fair value hedges)	30,656	-11,724
Net gains or losses on hedges (fair value hedges)	-31,542	9,741
Net gains or losses arising from the derecognition of financial assets	79	-724
Financial assets – AC	79	-724
Total	3,310	-3,956

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 accounting treatment of the underlying transactions.

The relevant valuations of both the active underlying and hedging transactions, and the final valuations of prematurely terminated hedges are shown here.

EUR '000	30 Jun. 2019 Net gains or losses on basis adjustments of underlyings	Net gains or losses on the measurement of hedges	Ineffectiveness
Assets			
Financial assets - FVOCI	7,696	-7,832	-137
Bonds	7,696	-7,832	-137
Financial assets - AC	145,418	-147,495	-2,077
Loans	133,915	-136,322	-2,406
Bonds	11,503	-11,173	330
Equity and liabilities			
Financial liabilities - AC	-122,458	123,785	1,327
Demand and time deposits	-51	29	-22
Debts evidenced by certificates	-122,407	123,756	1,350
Total	30,656	-31,542	-886

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

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3.5 Net other operating income/expenses

EUR '000	H1 2019	H1 2018
Other income	17,153	29,122
Net gains or losses arising from the disposal of intangible assets, property, plant and equipment, and other non-financial assets	110	152
Reversal of provisions	1,421	-
Gains on foreign currency translation	227	654
Gains on deconsolidation	74	8,286
Investment property	1,318	1,390
Other rental income	217	128
Real estate services and property development	11,450	10,719
Penalties on early repayments	1,005	6,265
Sundry other	1,331	1,528
Other expenses	-8,997	-8,288
Disposals of intangible assets, property, plant and equipment and other non-financial assets	-5	-
Recognition of provisions	-2,824	-2
Investment property	-967	-984
Real estate services and property development	-4,804	-4,885
Sundry other	-396	-2,418
Other taxes	-58	-67
Total	8,098	20,767

See Note 4.17 Provisions for further details on the "Expenses arising from the recognition of provisions" item.

The "Sundry other income" item includes net income of EUR 227thsd (H1 2018: EUR 654thsd) from currency translation.

Net gains on disposal of consolidated subsidiaries

EUR '000	H1 2019	H1 2018
Financial assets – AC	63	554
Property, plant and equipment	6	-
Other assets	130	11,301
Total assets	199	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	-199	-11,854
+ Liabilities disposed of	122	11,500
Net gains or losses on disposal of consolidated subsidiaries	74	8,286
Net gains or losses on disposal of consolidated subsidiaries through profit or loss	74	8,286

EUR '000	H1 2019	H1 2018
Consideration received in cash and cash equivalents	151	8,640
Less cash and cash equivalents sold	-	-
Cash proceeds of the disposal of subsidiaries	151	8,640
Amount outstanding from the corporate transaction	-	-

3.6 Administrative expenses

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

EUR '000	H1 2019	H1 2018
Staff costs	-30,714	-31,692
Other administrative expenses	-28,376	-29,712
Depreciation, amortisation and impairment	-2,511	-2,478
Total	-61,600	-63,879

3.6.1 Staff costs

EUR '000	H1 2019	H1 2018
Wages and salaries	-23,797	-24,624
Pensions and other employee benefit expenses	-6,917	-7,068
Total	-30,714	-31,692

	H1 2019	H1 2018
Average number of employees (incl. staff on parental leave)	777	802

3.6.2 Other administrative expenses

EUR '000	H1 2019	H1 2018
Premises	-2,070	-2,492
Office and communication expenses	-598	-640
IT expenses	-4,920	-4,728
Legal and consultancy costs	-999	-1,875
Advertising and entertainment costs	-2,056	-2,382
Other administrative expenses	-17,734	-17,597
Total	-28,376	-29,712

The year-on-year reduction in administrative expenses resulted from successful implementation of the Group's efficiency programme.

"Other administrative expenses" includes expenses of EUR 7,615thsd in contributions to the resolution and deposit insurance funds, as well as the instalment of the Austrian stability contribution, which amounted to EUR 6,133thsd. 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 decided to spread the one-off contribution across the four years up to 2020, as permitted by section 5 Stabilitätsabgabegesetz (Stability Contribution Act). As this payment is recognised in full at the beginning of the year and is not accrued by quarter, pursuant to IFRIC 21, the contributions had an impact on reported administrative expenses in the first half.

3.6.3 Depreciation, amortisation and impairment

EUR '000	H1 2019	H1 2018
Depreciation and amortisation	-2,511	-2,478
Intangible assets	-207	-319
Buildings used by Group companies	-914	-909
Equipment, fixtures and furnishings (incl. low value assets)	-1,076	-1,250
Rights of use (IFRS 16)	-314	-
Total	-2,511	-2,478

3.7 Impairment losses/gains on financial assets – IFRS 9 ECL

	Risk provisions					Gross carrying amount				
EUR '000	30 Jun. 2019				31 Dec. 2018	30 Jun. 2019				31 Dec. 2018
	Stage 1	Stage 2	Stage 3	Total	Total	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets – AC	7,611	15,550	48,003	71,163	77,243	7,664,524	1,436,992	145,205	9,246,721	11,717,918
Loans	7,502	15,521	48,003	71,026	77,115	6,832,767	1,408,060	107,817	8,348,644	10,970,077
Rating class 1	72	16	-	88	144	2,242,472	99,434	-	2,341,906	4,960,034
Rating class 2	1,716	186	-	1,902	2,097	2,538,109	125,840	-	2,663,949	2,766,700
Rating class 3	5,011	10,453	-	15,464	16,363	1,989,927	1,031,033	-	3,020,960	2,904,408
Rating class 4	703	4,864	-	5,567	4,946	62,258	151,605	-	213,863	203,682
Rating class 5	-	-	48,003	48,003	53,342	-	12	107,817	107,829	115,086
Not rated	-	3	-	3	222	-	138	-	138	20,167
Bonds	109	28	-	137	128	831,757	28,931	37,388	898,077	747,841
Rating class 1	19	-	-	19	11	528,105	-	-	528,105	470,520
Rating class 2	81	28	-	109	90	289,102	28,931	-	318,033	226,555
Rating class 3	9	-	-	9	27	14,551	-	-	14,551	12,892
Rating class 5	-	-	-	-	-	-	-	37,388	37,388	37,874
Financial assets – FVOCI	36	6	-	42	55	621,200	7,565	-	628,765	756,705
Bonds	36	6	-	42	55	621,200	7,565	-	628,765	756,705
Rating class 1	13	-	-	13	14	442,554	-	-	442,554	526,325
Rating class 2	23	6	-	29	42	178,646	7,565	-	186,211	230,381
Provisions for off-balance-sheet risks	647	210	141	998	1,832	2,370,412	67,070	1,715	2,439,197	1,037,729
Rating class 1	1	-	-	1	3	1,733,543	5,345	-	1,738,888	486,338
Rating class 2	60	13	-	73	117	303,033	28,206	-	331,239	277,897
Rating class 3	525	36	-	561	745	327,268	22,616	-	349,884	256,648
Rating class 4	61	163	-	223	216	6,568	10,874	-	17,442	13,917
Rating class 5	-	-1	141	139	750	-	-	1,715	1,715	2,895
Not rated	-	-	-	-	2	-	29	-	29	34
Total	8,293	15,766	48,143	72,203	79,130	10,656,136	1,511,627	146,920	12,314,683	13,512,352

Stage 1 impairment losses/gains

EUR '000	1 Jan. 2019	Origination and purchase	Derecognition/utilisation/substantial modification	Allocations/reversals/stage transfers	Foreign exchange and other changes	30 Jun. 2019
Financial assets - AC	-7,355	-2,249	183	1,811	-	-7,611
Loans	-7,258	-2,249	183	1,822	-	-7,502
Banks	-8	-	-	-2	-	-10
General governments	-214	-4	3	146	-	-70
Other financial corporations	-257	-666	-	-53	99	-877
Non-financial corporations	-5,503	-1,265	151	1,441	-99	-5,275
Households	-1,275	-314	29	290	-	-1,270
Bonds	-98	-	-	-11	-	-109
Banks	-48	-	-	-25	-	-73
General governments	-3	-	-	-2	-	-5
Other financial corporations	-	-	-	-5	-	-5
Non-financial corporations	-47	-	-	21	-	-26
Financial assets - FVOCI	-46	-	-	11	-	-36
Bonds	-46	-	-	11	-	-36
Banks	-38	-	-	10	-	-28
General governments	-5	-	-	1	-	-4
Other financial corporations	-1	-	-	-	-	-1
Non-financial corporations	-1	-	-	-1	-	-2
Total	-7,402	-2,249	183	1,821	-	-7,646

EUR '000	1 Jan. 2018	Origination and purchase	Derecognition/utilisation/substantial modification	Allocations/reversals/stage transfers	Foreign exchange and other changes	30 Jun. 2018
Financial assets - AC	-8,576	-	127	908	10	-7,531
Loans	-8,359	-	127	968	10	-7,254
Banks	-28	-	-	-	-	-27
General governments	-303	-	-	-92	-4	-400
Other financial corporations	-157	-	-	-97	6	-247
Non-financial corporations	-6,409	-	126	995	9	-5,279
Households	-1,461	-	-	161	-1	-1,301
Bonds	-217	-	-	-60	-	-277
Banks	-39	-	-	-11	-	-50
General governments	-4	-	-	-1	-	-5
Other financial corporations	-174	-	-	-48	-	-222
Non-financial corporations	-	-	-	-	-	-
Financial assets - FVOCI	-68	-	-	39	-	-29
Bonds	-68	-	-	39	-	-29
Banks	-59	-	-	34	-	-25
General governments	-7	-	-	4	-	-3
Other financial corporations	-1	-	-	1	-	-
Non-financial corporations	-1	-	-	1	-	-
Total	-8,644	-	127	947	10	-7,560

Stage 2 impairment losses/gains

EUR '000	1 Jan. 2019	Origination and purchase	Derecognition/u tilisation/substa ntial modification	Allocations/reve rsals/stage transfers	Foreign exchange and other changes	30 Jun. 2019
Financial assets - AC	-16,546	-668	407	1,257	-	-15,550
Loans	-16,516	-668	407	1,255	-	-15,521
Banks	-2	-	-	-5	-	-7
General governments	-901	-1	-	-230	-	-1,131
Other financial corporations	-20	-648	-	627	-	-41
Non-financial corporations	-5,485	-7	96	28	-	-5,367
Households	-10,108	-13	311	834	-	-8,976
Bonds	-30	-	-	2	-	-28
Banks	-	-	-	-	-	-
General governments	-30	-	-	2	-	-28
Financial assets - FVOCI	-9	-	-	3	-	-6
Bonds	-9	-	-	3	-	-6
Banks	-9	-	-	3	-	-6
Total	-16,555	-668	407	1,260	-	-15,556

EUR '000	1 Jan. 2018	Origination and purchase	Derecognition/u tilisation/substa ntial modification	Allocations/reve rsals/stage transfers	Foreign exchange and other changes	30 Jun. 2018
Financial assets - AC	-19,074	-	-	3,844	-51	-15,280
Loans	-18,506	-	-	3,545	-51	-15,012
Banks	-30	-	-	-	-	-30
General governments	-1,380	-	-	676	-	-704
Other financial corporations	-361	-	-	332	-6	-36
Non-financial corporations	-6,699	-	-	2,120	-6	-4,585
Households	-10,036	-	-	417	-38	-9,657
Bonds	-568	-	-	299	-	-269
Banks	-14	-	-	7	-	-7
General governments	-554	-	-	292	-	-262
Financial assets - FVOCI	-20	-	-	36	-	16
Bonds	-20	-	-	36	-	16
Banks	-20	-	-	36	-	16
Total	-19,094	-	-	3,881	-51	-15,264

Stage 3 impairment losses/gains

EUR '000	1 Jan. 2019	Origination and purchase	Derecognition/utilisation/substantial modification	Allocations/reversals/stage transfers	Foreign exchange and other changes	30 Jun. 2019
Financial assets - AC	-53,342	-58	4,339	1,057	-	-48,003
Loans	-53,342	-58	4,339	1,057	-	-48,003
General governments	-4,695	-	-	184	-	-4,511
Non-financial corporations	-31,682	-	1,018	1,493	-	-29,171
Households	-16,965	-58	3,322	-620	-	-14,321
Total	-53,342	-58	4,339	1,057	-	-48,003

EUR '000	1 Jan. 2018	Origination and purchase	Derecognition/utilisation/substantial modification	Allocations/reversals/stage transfers	Foreign exchange and other changes	30 Jun. 2018
Financial assets - AC	-62,865	-	2,224	2,825	-26	-57,842
Loans	-62,865	-	2,224	2,825	-26	-57,842
General governments	-5,071	-	-	191	-	-4,880
Non-financial corporations	-40,189	-	2,224	2,861	-	-35,104
Households	-17,605	-	-	-227	-26	-17,858
Total	-62,865	-	2,224	2,825	-26	-57,842

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

This item includes net gains or losses relating to 11 Austrian associates and joint ventures accounted for using the equity method.

EUR '000	H1 2019	H1 2018
Net gains or losses on investments accounted for using the equity method	253	918
Viminal Grundstückverwaltungs Gesellschaft m.b.H.	-	297
NOE Immobilien Development GmbH (consolidated financial statements)	-448	-205
Niederösterreichische Vorsorgekasse AG	234	-35
EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statements)	198	-
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	345	488
Total	253	918

3.9 Income tax expense

EUR '000	H1 2019	H1 2018
Current income tax	-5,183	-6,408
Deferred income tax	271	231
Total	-4,912	-6,177

3.10 Income from discontinued operations

EUR '000	H1 2019	H1 2018
Net gain on measurement at the net selling price	-	512
Total	-	512

3.11 Non-controlling interests

EUR '000	H1 2019	H1 2018
FORIS Grundstückvermietungs Gesellschaft m.b.H.	7	8
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-216	60
LITUS Grundstückvermietungs Gesellschaft m.b.H.	8	28
PINUS Grundstückvermietungs Gesellschaft m.b.H.	-2	-
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-12	-14
Adoria Grundstückvermietungs Gesellschaft m.b.H.	-5	-21
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-9	-48
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	7	-205
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	-18	-20
Total	-238	-211

4. Notes to the statement of financial position

4.1 Cash and balances at central banks

EUR '000	30 Jun. 2019	31 Dec. 2018
Cash on hand	11,130	12,323
Balances at central banks	432,488	404,808
Total	443,618	417,130

4.2 Financial assets – HFT

EUR '000	30 Jun. 2019	31 Dec. 2018
Positive fair value of derivatives held for trading		
Positive fair value of interest rate derivatives	456,361	413,671
Positive fair value of foreign exchange derivatives	11,901	15,312
Total	468,262	428,983

4.3 Financial assets – mandatorily FVTPL

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

EUR '000	30 Jun. 2019	31 Dec. 2018
Loans	154,132	162,414
General governments	3,870	4,240
Other financial corporations	2,236	2,260
Non-financial corporations	106,675	111,268
Households	41,351	44,646
Bonds	103,763	100,062
General governments	45,715	42,694
Banks	47,853	47,184
Other financial corporations	10,195	10,184
Total	257,895	262,475

4.4 Financial assets – FVOCI

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

EUR '000	30 Jun. 2019	31 Dec. 2018
Bonds	647,161	756,705
General governments	476,532	522,394
Banks	158,395	222,115
Other financial corporations	10,152	10,137
Non-financial corporations	2,082	2,059
Equity instruments	2,648	3,511
Banks	808	792
Non-financial corporations	1,839	2,718
Total	649,809	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 30 Jun. 2019	Fair value 31 Dec. 2018
Equity instruments		2,648	3,511
NÖ Bürgschaften und Beteiligungen GmbH	5.82%	985	982
Hypo-Wohnbaubank Aktiengesellschaft	12.50%	808	792
Garantiqa Hitelgarancia Zártkörüen Müködö Részvénytársaság	0.13%	167	130
HP IT-Solutions GmbH	8.33%	12	12
Hypo-Haftungs-Gesellschaft m.b.H. in Liqu.	12.50%	4	5
Hypo-Banken-Holding Gesellschaft m.b.H.	12.50%	540	788
VB Services für Banken Ges.m.b.H.	1.11%	92	92
Volksbanken-Versicherungsdienst-Gesellschaft m.b.H.	0.56%	22	23
Total		2,648	3,511

The dividend income included in "Financial assets – FVOCI" is reported as a separate item, "Dividend income", in the statement of comprehensive income. The HYPO NOE Group received no dividend income from financial investments that were derecognised during the reporting period.

4.5 Financial assets – AC

Transactions that are attributed to the "hold to collect" business model and pass the SPPI test are reported as "Financial assets – AC". These mainly relate to loans originated by the Bank, lease receivables, overnight money and time deposits, and securities corresponding to the "hold to collect" business model. Measurement is at amortised cost less risk provisions.

EUR '000	30 Jun. 2019	31 Dec. 2018
Loans	11,486,643	10,892,962
Banks	716,459	644,825
General governments	4,364,862	4,371,429
Other financial corporations	299,191	209,427
Non-financial corporations	4,038,102	3,690,180
Households	2,068,030	1,977,101
Bonds	898,608	747,713
Banks	318,027	211,346
General governments	514,275	474,842
Other financial corporations	39,688	37,874
Non-financial corporations	26,618	23,651
Total	12,385,251	11,640,675

4.6 Positive fair value of hedges (hedge accounting)

The Group reports the positive fair value of derivatives as at 30 June 2019 under the fair value hedge accounting. The table below shows the positive fair value of these instruments according to the statement of financial position items of the hedged underlyings.

EUR '000	30 Jun. 2019	31 Dec. 2018
Assets	2,866	1,440
Financial assets – AC	2,866	1,439
Equity and liabilities	487,238	375,694
Financial liabilities – AC	487,238	375,694
Total	490,104	377,134

4.7 Investments accounted for using the equity method

EUR '000	30 Jun. 2019	31 Dec. 2018
Banks	3,521	3,366
Non-banks	19,482	19,782
Total	23,003	23,148

4.8 Investment property

EUR '000	30 Jun. 2019	31 Dec. 2018
Investment property	39,114	39,608

4.9 Intangible assets

EUR '000	30 Jun. 2019	31 Dec. 2018
Intangible assets		
Software	558	755
Total	558	755

4.10 Property, plant and equipment

EUR '000	30 Jun. 2019	31 Dec. 2018
Property, plant and equipment		
Land and buildings	59,199	59,978
IT equipment	381	357
Equipment, fixtures and furnishings	6,037	6,443
Rights of use (IFRS 16)	2,881	-
Total	68,498	66,778

The carrying amount of land as at 30 June 2019 was EUR 12,986thsd (30 Jun. 2018: EUR 12,983thsd).

The fair value of land and buildings as at the end of the reporting period was unchanged year on year, at EUR 70,333thsd.

4.11 Tax assets

EUR '000	30 Jun. 2019	31 Dec. 2018
Current tax assets	13,028	12,147
Deferred tax assets	-	-
Total	13,028	12,147

4.12 Other assets

EUR '000	30 Jun. 2019	31 Dec. 2018
Accruals and deferrals	7,758	8,426
Other receivables and assets	21,093	22,587
Value added tax (VAT) and other tax credits (other than income tax)	2,301	3,671
Trade receivables	3,374	2,380
Other receivables	7,838	11,186
Total	28,851	31,013

4.13 Financial liabilities - HFT

This item includes the negative fair value of derivatives held by the Group as economic hedges as at 30 June 2019, and not included in the hedge accounting.

EUR '000	30 Jun. 2019	31 Dec. 2018
Negative fair value of derivatives held for trading		
Negative fair value of interest rate derivatives	423,537	376,239
Negative fair value of foreign exchange derivatives	11,250	15,189
Total	434,787	391,428

4.14 Financial liabilities - FVO

In accordance with paragraph 4.2.2 IFRS 9, the Group designated the following liabilities as measured at fair value through profit or loss, so as to avoid measurement or recognition inconsistencies with regard to the related assets.

EUR '000	30 Jun. 2019	31 Dec. 2018
Demand and time deposits	4,250	3,500
General governments	4,250	3,500
Total	4,250	3,500

4.15 Financial liabilities - AC

This item contains financial liabilities measured at amortised cost. Gains and losses on debts evidenced by certificates are amortised at constant effective rates of interest over the maturities of the liabilities.

Interest expense is reported under "Interest and similar expense" (Note 3.2).

A detailed discussion of the current risk situation can be found in Note 6.5 Risk management.

EUR '000	30 Jun. 2019	31 Dec. 2018
Savings deposits	829,624	872,853
Demand and time deposits	3,990,573	3,610,437
Banks	899,847	1,054,574
General governments	998,069	728,224
Other financial corporations	811,534	585,032
Non-financial corporations	483,826	535,214
Households	797,297	707,393
Debts evidenced by certificates	7,944,735	7,623,334
Covered bonds	1,109,937	1,130,105
Municipal bonds	4,177,046	4,103,536
Other bonds	2,657,752	2,389,693
Total	12,764,932	12,106,624

4.16 Negative fair value of hedges (hedge accounting)

The Group reports the negative fair value of derivatives as at 30 June 2019 under the fair value hedge accounting. An analysis of the negative fair value of these instruments based on the statement of financial position items of the hedged underlyings is shown in the table below.

EUR '000	30 Jun. 2019	31 Dec. 2018
Assets	778,916	637,741
Financial assets - FVOCI	78,758	82,379
Financial assets - AC	700,158	555,363
Equity and liabilities	12,514	27,432
Financial liabilities - AC	12,514	27,432
Total	791,430	665,173

4.17 Provisions

EUR '000	30 Jun. 2019	31 Dec. 2018
Employee benefit provisions	33,285	33,019
Provisions for pensions	20,452	20,685
Provisions for termination benefits	10,558	10,160
Provisions for jubilee benefits	2,275	2,174
Credit provisions	998	1,832
Other provisions	24,865	23,860
Total	59,148	58,711

As the legal situation regarding negative interest on corporate loan agreements remains unchanged and the Austrian Supreme Court is yet to make a ruling that would change our risk assessment, the provision for this risk, which is included in "Other provisions", was adjusted using the HYPO NOE Group's measurement model.

4.18 Tax liabilities

EUR '000	30 Jun. 2019	31 Dec. 2018
Current tax liabilities	15,460	13,574
Deferred tax liabilities	26,567	27,696
Total	42,027	41,271

4.19 Other liabilities

EUR '000	30 Jun. 2019	31 Dec. 2018
Accruals and deferrals	15,400	21,810
Other liabilities	82,248	106,698
Trade payables	10,804	24,340
Outstanding invoices	40,908	53,772
VAT and other tax liabilities (other than income tax)	5,516	6,893
Legal and consultancy costs	245	524
Phantom-share-based cash incentives	34	34
Total	97,649	128,507

4.20 Supplementary capital

EUR '000	30 Jun. 2019	31 Dec. 2018
Tier 2 capital	1,453	1,453
Subordinated loans	1,453	1,453

4.21 Equity

EUR '000	30 Jun. 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
Revaluation surplus	10,799	13,375
Retained earnings	409,429	398,240
Equity attributable to owners of the parent	664,033	655,419
Non-controlling interests	8,282	7,978
Total	672,315	663,398

4.22 Consolidated capital resources 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 Landesbank für Niederösterreich und Wien AG banking group, calculated in accordance with the CRR/CRD IV requirements, are broken down as follows:

EUR '000	CRR/CRD IV 30 Jun. 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	509,032	512,118
Retained earnings	391,727	391,791
Other reserves	104,744	104,744
Accumulated comprehensive income	12,561	15,584
Prudential filter: adjustments due to the prudential measurement requirements	-1,648	-1,793
Other transitional adjustments to Common Equity Tier 1 (CET1) capital	-	-
Intangible assets	-531	-719
CET1 capital	643,400	646,153
Additional Tier 1 capital	-	-
Tier 1 capital	643,400	646,153
Deductions due to investments, pursuant to Art. 36 and Art. 89 CRR	-	-
Eligible Tier 1 capital	643,400	646,153
Deductions due to investments, pursuant to Art. 36 and Art. 89 CRR	-	-
Total eligible capital	643,400	646,153
Own funds requirement	270,108	246,527
Own funds surplus	373,292	399,626
Coverage ratio	238.20%	262.10%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR – fully loaded	19.06%	20.97%
Total capital ratio in accordance with Art. 92(2)(c) CRR – fully loaded	19.06%	20.97%

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

EUR '000	CRR/CRD IV 30 Jun. 2019	CRR/CRD IV 31 Dec. 2018
Risk-weighted measurement basis for credit risk	3,004,016	2,690,759
8% minimum capital requirement	240,321	215,261
Capital requirement for open currency positions	-	2
Capital requirement for operational risk	23,263	24,367
Capital requirement for CVA risk	6,523	6,897
Total capital requirement	270,108	246,527

The total own funds requirement as at 30 June 2019 was EUR 270.1m (31 Dec. 2018: EUR 246.5m) – an increase of EUR 23.6m or 9.6%. This was driven by two key factors. The majority of the increase was accounted for by higher lending to corporate customers and mortgages, which pushed up the own funds requirement by EUR 16.8m and was also reflected in the change in total assets. However, in the light of the FMA's clarifications regarding speculative real estate finance, an increased risk weighting of 150% was attributable to a larger volume of new business. The receivables reported in the corresponding risk exposure class made up around EUR 4.7m of the increased own funds requirement.

Total eligible capital was EUR 643.4m. (31 Dec. 2018: EUR 646.2m). In spite of this small decrease, which was mainly due to the change in the revaluation surplus, as well as the higher capital requirement for credit risk, the Tier 1 capital and equity ratios stood at 19.06% – still significantly above the minimum requirement including all buffers of 13.14%.

5. 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 IFRS 8-compliant segment reports. These contain a statement of profit or loss for each segment, as well as statements of segment assets and liabilities, and comments.

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

The organisational and management structure of the HYPO NOE Group is based on areas of activity and customer groups. In the interests of an improved Group structure, in 2018 additional synergies were leveraged by streamlining the Group's organisation. Additional details are given below.

The segment reporting has been adjusted to the new organisational structure. The changes in segment reporting were made in accordance with paragraph 29 IFRS 8, meaning that the previous year's figures have been restated to reflect the new segmentation. Information on the changes to the segment reporting is given in the description of the operating segments, below.

In its capacity as the Group's most senior managing body, the plenary Management Board regularly monitors the evolution of profit or loss before tax across the various business segments, and takes decisions on the management of the Group in light of the segment reports.

The segment reporting is derived from the profit centre accounting of HYPO NOE Landesbank für Niederösterreich und Wien AG and the subsidiaries' IFRS financial statements. The same accounting policies as those set out in Note 1 Accounting policies are applied to the preparation of these statements.

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

Where appropriate, administrative expenses are allocated directly. Cost components that are not directly allocable are attributed to the various segments in a 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 as Corporate Center segment liabilities.

The analysis by geographical areas in accordance with paragraph 33 IFRS 8 is based on the domiciles of reporting entities, and accordingly all interest income is attributed to Austria. Group non-current assets are almost entirely located in Austria, the exception being the carrying amounts of the foreign subsidiaries of HYPO NOE First Facility GmbH.

A breakdown by products and services in accordance with paragraph 32 IFRS 8 is not provided, as the necessary information is not available in full on a regular basis, and the cost of compiling it would be inordinate.

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.

Public Sector segment

Lending and deposit-taking business with public sector and government-linked customers (primarily state governments, local authorities, public agencies and infrastructure companies) comes under this segment. Besides conventional loan finance the focus is on bespoke financing models in the Bank's core markets of Lower Austria and Vienna, as well as in selected countries and major cities in the CEE region. In addition, income generated by the administration of state-subsidised homebuilding loans, a service provided for the public sector by the HYPO NOE Group, is reported under this segment.

Also attributed to it are all the earnings of the leasing subsidiaries (formerly the Leasing sub-group), which are almost entirely derived from leasing transactions with the public sector and public agencies. The leasing subsidiaries provide the following products: complex, project-based real estate lease agreements, real estate project management services and business management services.

Financing and deposit-taking business with religious communities, interest groups and agricultural customers accounts for a small proportion of the segment's business volume and earnings.

A business relationship with a major customer in the meaning of paragraph 34 IFRS 8 is included in the Public Finance segment. 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 11.1m. This figure is made up of EUR 3.9m from direct business relationships with the customer, EUR 2.0m from direct business relationships with allocable group members, and EUR 5.2m from indirect business relationships in the form of lease refinancing.

Real Estate Customers segment

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

It does not include the equity holding in EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (EWU), accounted for using the equity method. This is run by the investment management unit of HYPO NOE Landesbank für Niederösterreich und Wien AG, and is assigned to the Corporate Center.

Retail and Corporate Customers segment

This segment encompasses the banking business with retail, self-employed and business customers.

The HYPO NOE Group's branches provide outstanding service for retail, self-employed and corporate customers in its core Lower Austrian and Viennese market. The products are attuned to the Bank's core competencies, and cluster around finance and housing, saving and investment, and accounts and cards. The product portfolio comprises the full range of conventional banking products, from lending with an emphasis on housing construction, and investment products in the form of savings and security custody accounts, through to current accounts and credit cards. Close cooperation with the State of Lower Austria enables the Group to offer one-stop consultation on loans and subsidies, assuring customers of sound advice and rapid processing.

This segment is also responsible for providing a comprehensive range of services for corporate customers. It is subdivided into a number of customer service units. Besides a team dedicated to SMEs there is a group focusing on large corporates, as well as a separate one specialised in structured transactions and product solutions, especially subsidised loans and export finance.

The insurance brokerage business of HYPO NOE Versicherungsservice GmbH (HVS) is also included in this segment. Group company HVS acts as an independent broker and advises HYPO NOE Group customers on insurance matters.

In the 2018 semi-annual financial report the business activities related to large corporates were attributed to the former Real Estate & Large Corporates segment, now renamed Real Estate Customers. Owing to organisational changes which also led to adjustments to management responsibilities, the business activities involving large corporates are now assigned to the Retail and Corporate Customers segment.

Treasury & ALM segment

The Treasury & ALM segment embraces all of the HYPO NOE Group's capital market operations and interbank business. This includes capital market refinancing, and interest rate and liquidity management activities, as well as liquidity buffering using high-quality liquid assets and central bank deposits, and management of foreign exchange risk. This segment also includes the earnings contributions of the Group's asset liability management (ALM) activities. From a regulatory perspective, the HYPO NOE Group's trading book is small. Earnings in this segment are thus not materially affected by the trading activities.

Real Estate Services segment

Besides conventional banking activities, the HYPO NOE Group provides services along the entire real estate value chain. This business comes under the umbrella of HYPO NOE Immobilien Beteiligungsholding GmbH, and includes wholly-owned subsidiaries HYPO NOE Real Consult GmbH and HYPO NOE First Facility GmbH, as well as NOE Immobilien Development GmbH (NID), a property development company accounted for using the equity method.

The Group's property companies operate under a single brand, HYPO NOE Immobilien. With the overarching goal of acting as a single-source provider of the entire spectrum of real estate management services, this holding company runs facility, property and project management, real estate marketing and estate agency, and project development service businesses.

Corporate Center segment

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 another segment and are too small to constitute reportable segments in their own right.

Among the bank support services are companies that manage properties primarily used by the Group and related assets. These entities include Benkerwiese Verwaltungs- und Verwertungsgesellschaft m.b.H. and Unternehmens-, Verwaltungs- und Verwertungsgesellschaft m.b.H. The liquidated real estate valuation subsidiary HYPO NOE Valuation & Advisory GmbH also provided ancillary services. These subsidiaries' activities have been integrated with HYPO NOE Landesbank für Niederösterreich und Wien AG. The rental expenses and valuation costs charged on by these firms are allocated to the operating segments' administrative expenses on a causation basis.

Income and expenses generated by interests administered by the investment management arm of HYPO NOE Landesbank für Niederösterreich und Wien AG are also allocated to the Corporate Center segment. The businesses concerned include EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (EWU), Niederösterreichische Vorsorgekasse AG and Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H. During the first half of 2019 property management activities previously performed by HV Immobilienverwaltung GmbH were transferred to EWU.

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
  The assets of HYPO NOE Landesbank für Niederösterreich und Wien AG include cash collateral positions which hedge the fair value of derivatives. Many of these collaterals arise from derivative contracts with customers that were concluded in the absence of accompanying collateral agreements. The risk limits nevertheless made market hedging of these customer derivatives mandatory, although collateral obligations were not yet the market standard when most of the trades were carried out. As a result of developments on financial markets and changes in the regulatory framework, hedging of derivative contracts between banks by means of cash collaterals is now common practice or mandatory (the clearing obligation). Where customer derivatives are not secured by collateral agreements the HYPO NOE Group does not receive collateral from customers but must post cash collaterals with the hedging partners. Liquidity costs are incurred when refinancing these collaterals. Treasury & ALM is responsible for managing all the collateral positions, but the refinancing costs attributable to them are allocated to the Corporate Center segment. Collateral requirements for future customer derivatives

will be met by means of pricing or collateral agreements with customers, and are therefore not included in this asymmetrical allocation.

- Effects of the Austrian Supreme Court's ruling on negative interest rates on consumer loans
- Legal-risk provision for the potential repayment of negative interest arising from corporate loan agreements

  Details are given in Note 4.17 Provisions.

Business models applied in segments pursuant to IFRS 9

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

- "Hold to collect" business model
  In principle, the operations of the Public Sector, Real Estate Customers, and Retail and Corporate Customers segments are subject to this business model. Exceptions may arise from portfolio drawdown strategies or planned loan syndications. In the case of planned syndications, the portion of the loan to be syndicated is allocated to the "hold to collect and sell" or "do not hold" business models according to the definiteness of the intention to syndicate. There were no such cases as of 30 June 2019. The stock of "Financial assets – mandatorily FVTPL" reported under the above segments mainly relates to loans for which fair value measurement based on an SPPI test is required. 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 to asset portfolios subject to the nostro strategy; these are allocated to the Treasury & ALM segment.

5.1 Business segment information

The bottom line of the internal segmental reporting is profit or loss before tax. Income tax expense and non-controlling interests reconcile the segmental analysis with the consolidated profit or loss in the Group column. The presentation in the notes corresponds to the internal reporting.

30 Jun. 2019, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Group
Net interest income	17,848	12,133	19,263	11,504	143	-3,596	57,295
Net fee and commission income	1,731	585	6,951	-117	-1	25	9,174
Net gains or losses on financial assets and liabilities	-1,674	608	-120	1,485	-	3,011	3,310
Net other operating income	3,826	141	459	948	5,990	-3,266	8,098
Net gains or losses on investments accounted for using the equity method	-76	-	-	-	-448	777	253
Administrative expenses	-11,853	-6,939	-22,324	-6,929	-6,270	-7,284	-61,600
Impairment losses or gains on financial assets – IFRS 9, ECL	2,254	-353	1,513	-24	-1	-15	3,374
Profit or loss before tax	12,056	6,175	5,741	6,866	-587	-10,348	19,904
Income tax expense							-4,913
Profit for the period from continuing operations							14,991
Earnings from discontinued operations							-
Profit for the period							14,991
Segment assets	7,577,878	1,854,628	1,970,309	3,296,034	48,400	120,742	14,867,991
Segment liabilities	2,229,221	257,347	2,173,857	9,431,642	7,420	768,504	14,867,991

30 Jun. 2019, EUR '000	Public Sector	Real Estate Customers	Retail and Corporate Customers	Treasury & ALM	Real Estate Services	Corporate Center	Group
Net interest income	18,208	13,117	17,357	10,929	97	-4,050	55,658
Net fee and commission income	1,705	534	6,029	-573	-1	42	7,735
Net gains or losses on financial assets and liabilities	192	-1,088	831	-3,895	-	4	-3,956
Net other operating income	2,965	2,821	498	3,243	13,670	-2,431	20,767
Net gains or losses on investments accounted for using the equity method	291	-	-	-	174	453	918
Administrative expenses	-12,682	-6,095	-23,475	-8,189	-6,411	-7,030	-63,879
Impairment losses or gains on financial assets – IFRS 9, ECL	1,383	2,356	4,297	133	125	11	8,304
Profit before tax	12,061	11,646	5,538	1,648	7,654	-13,001	25,548
Income tax expense							-6,177
Profit for the period from continuing operations							19,371
Earnings from discontinued operations							512
Profit for the period							19,883
Segment assets	7,633,857	1,593,212	1,858,599	2,673,469	49,429	102,132	13,910,698
Segment liabilities	2,264,749	304,950	2,352,768	8,267,788	5,263	715,179	13,910,698

Public Sector segment

The Public Sector segment is the largest in the Group and holds over 50% of its total assets.

The EUR 1.9m year-on-year deterioration in segment 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.

"Net other operating income" registered an increase which is largely explained by the reversal of a legal risk provision.

Real Estate Customers segment

Net interest income in the Real Estate Customers segment declined year on year, partly as a result of the early repayment of high-interest debt in 2018. The high net other operating income in the comparative period is explained by penalties earned in connection with these repayments in 2018.

The fluctuations in the segment net measurement gains or losses chiefly arise from the fair value measurement of loans required by IFRS 9 when the contractual terms fail the SPPI test (principally UDRB loans).

Segment assets increased year on year, mainly reflecting the growth of business from non-profit housing developers.

Retail and Corporate Customers segment

The Retail and Corporate Customers segment once again delivered improved net interest income, and net fee and commission income, on the back of steady growth. This result is highly satisfactory in view of the stiff competition faced by the segment, and of the low interest rate environment.

Together with this income-side success, the segment also posted lower expenses. This led to a marked year-on-year increase in earnings before risk provisions (Impairment losses/gains on financial assets – IFRS 9, ECL).

Treasury & ALM segment

Thanks to the success of its issuing activities, Treasury recorded a year-on-year gain in net interest income. New issues are also the explanation for higher segment liabilities.

A bond issue in the first half of 2019 was beneficial to net gains or losses on financial assets and liabilities.

Real Estate Services segment

The outstanding result returned by the Real Estate Services segment in the comparative period was due to the disposal of Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH, which raised EUR 8.4m. If this special effect is stripped out of net other operating income it becomes clear that profitability improved in comparison to the previous period.

Corporate Center segment

Net interest income in the Corporate Center segment for the first half of 2019 comprises a charge of EUR 2.0m for asymmetrical allocations relating to collateral costs (30 Jun. 2018: charge of EUR 2.2m), and negative interest on consumer loans.

The cost of refinancing ancillary companies (mainly Group properties) is also shown under this item.

Net other operating income in the Corporate Center segment includes specific material earnings from prior periods, and non-recurring income and expenses relating to the Bank as a whole. This is to avoid sending distorted signals to management at segment reporting level.

Administrative expenses in the Corporate Center segment comprise intra-year allocations relating to the one-off financial stability contribution, and the contributions to the resolution and deposit insurance funds. These expenses, which are paid in full on 1 January each year, are allocated to the operating segments in the course of the financial year.

6. Supplementary information

6.1 Fair value disclosures

The nature and extent of the risks associated with financial instruments, further sensitivity analyses and other disclosures also form part of Note 6.5 Risk management.

6.1.1 Financial instruments measured at fair value

Fair value hierarchy disclosures

As at 30 June 2019 the HYPO NOE Group had no assets or liabilities that were subject to non-recurring fair value measurement.

EUR '000	30 Jun. 2019			
	Total fair value	Fair value measurement		
		Level 1	Level 2	Level 3
Assets				
Financial assets - HFT	468,262	-	65,997	402,265
Financial assets - mandatorily FVTPL	257,895	27,749	55,154	174,992
Financial assets - FVOCI	649,809	647,162	-	2,647
Positive fair value of hedges (hedge accounting)	490,104	-	490,104	-
Total assets	1,866,070	674,911	611,255	579,904
Equity and liabilities				
Financial liabilities - HFT	434,787	-	434,787	-
Financial liabilities - FVO	4,250	-	-	4,250
Negative fair value of hedges (hedge accounting)	791,430	-	791,430	-
Total equity and liabilities	1,230,467	-	1,226,217	4,250

EUR '000	31 Dec. 2018			
	Total fair value	Fair value measurement		
		Level 1	Level 2	Level 3
Assets				
Financial assets - HFT	428,983	-	54,413	374,570
Financial assets - mandatorily FVTPL	262,475	28,013	54,948	179,514
Financial assets - FVOCI	760,215	731,267	25,438	3,510
Positive fair value of hedges (hedge accounting)	377,134	-	377,134	-
Total assets	1,828,807	759,280	511,933	557,594
Equity and liabilities				
Financial liabilities - HFT	391,428	-	391,428	-
Financial liabilities - FVO	3,500	-	-	3,500
Negative fair value of hedges (hedge accounting)	665,173	-	665,173	-
Total equity and liabilities	1,060,101	-	1,056,601	3,500

Transfers between levels

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.

Fair value measurements categorised within Level 3

	30 Jun. 2019						
		Gains/losses					
EUR '000	1 Jan. 2019	Recognised in profit or loss	Recognised in OCI	Purchases	Sales	30 Jun. 2019	Unrealised gains or losses recognised in profit or loss as at 30 Jun. 2019
Assets							
Financial assets - HFT	374,570	27,696	-	-	-	402,265	29,462
Financial assets - mandatorily FVTPL	179,514	4,309	-	690	-9,520	174,992	4,309
Financial assets - FVOCI	3,510	-	-196	-	-667	2,647	-
Total assets	557,594	32,005	-196	690	-10,187	579,904	33,771
Equity and liabilities							
Financial liabilities - FVO	3,500	750	-	-	-	4,250	750
Total equity and liabilities	3,500	750	-	-	-	4,250	750

The gains or losses on assets for which measurements are categorised within Level 3 are largely made up of losses of EUR 29,462thsd on financial assets held for trading (HFT): see Note 3.4 Net gains or losses on financial assets and liabilities (2018: losses of EUR 87,331thsd under "Assets held for trading", included in the "Net trading income" statement of profit or loss item).

	31 Dec. 2018						
		Gains/losses					
EUR '000	1 Jan. 2018	Recognised in profit or loss	Recognised in OCI	Purchases	Sales	31 Dec. 2018	Gains/losses recognised in profit and loss on assets held 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	-

Level 3 sensitivity analysis

The results of the sensitivity analysis for financial assets categorised within 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 inputs on the fair values of financial instruments categorised within Level 3. The figures presented are not a forecast or indication of future changes in fair value, but represent potential losses that could also result in potential gains of a similar amount. In the case of "Financial assets – HFT", global CDS spreads represent the significant inputs. For "Financial assets – mandatorily FVTPL", 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.

30 Jun. 2019, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets – HFT	391,667	1,017	Hybrid Hull-White model	Global CDS spreads
Financial assets – mandatorily FVTPL	153,880	4,874	DCF	Premiums for credit and liquidity risk
Financial assets – FVOCI (equity instruments)	2,647	N/A	Adjusted net asset value (NAV); DCF	Adjusted equity (for adjusted NAV model); WACC (for DCF model)
Total	548,194	5,891		

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

EUR '000	Change in fair value
10% increase in adjusted equity	254
10% decrease in adjusted equity	-254
50 bp increase in WACC	-4
50 bp decrease in WACC	5

6.1.2 Financial assets not measured at fair value

EUR '000	30 Jun. 2019					31 Dec. 2018	
	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Carrying amount
Assets							
Cash and balances at central banks	443,618	443,618	-	-	443,618	417,130	417,130
Financial assets - AC	12,679,868	746,613	777,278	11,155,977	12,385,251	11,844,014	11,640,675
Investments accounted for using the equity method	23,003	-	-	23,003	23,003	23,148	23,148
Investment property	47,873	-	-	47,873	39,114	47,878	39,608
Other assets	28,851	3,933	-	24,918	28,851	31,013	31,013
Total assets	13,223,213	1,194,165	777,278	11,251,770	12,919,837	12,363,184	12,151,575
Equity and liabilities							
Financial liabilities - AC	12,826,329	4,253,220	4,157,888	4,415,220	12,764,932	12,189,911	12,106,624
Other liabilities	97,649	3,504	-	94,144	97,649	128,258	128,507
Total equity and liabilities	12,925,431	4,256,725	4,157,888	4,510,818	12,864,034	12,319,622	12,236,584

6.2 Derivatives

6.2.1 Carrying amounts and nominal values of derivatives

At the end of the reporting period the HYPO NOE Group only held unlisted, over-the-counter (OTC) derivatives.

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

The following table provides an overview of the nominal values, carrying amounts and product types of derivatives carried at the end of the reporting period.

EUR '000	30 Jun. 2019			31 Dec. 2018		
	Carrying amount		Nominal value	Carrying amount		Nominal value
	Assets	Liabilities		Assets	Liabilities	
Financial assets - HFT	468,262	434,787	5,418,441	428,983	391,428	5,497,011
Interest rate derivatives	456,361	423,537	4,746,410	413,671	376,239	4,848,793
Foreign exchange derivatives	11,901	11,250	672,031	15,312	15,189	648,217
Fair value hedges	490,104	791,430	10,291,331	377,134	665,173	10,019,376
Interest rate derivatives	484,747	778,950	10,048,018	375,697	647,248	9,869,596
Foreign exchange derivatives	5,357	12,480	243,313	1,437	17,925	149,779

The following table gives an overview of netting for accounting purposes and netting agreements.

EUR '000	30 Jun. 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	468,262	-	468,262	-25,250	-14,181	428,831
Positive fair value of hedges (hedge accounting)	490,104	-	490,104	-312,890	-68,200	109,014
Total assets	958,366	-	958,366	-338,140	-82,381	537,845
Equity and liabilities						
Financial liabilities - HFT	434,787	-	434,787	-25,250	-311,522	98,015
Financial liabilities - FVO	4,250	-	4,250	-	-	4,250
Negative fair value of hedges (hedge accounting)	791,430	-	791,430	-312,890	-408,730	69,810
Total equity and liabilities	1,226,217	-	1,226,217	-338,140	-720,252	167,826

EUR '000	31 Dec. 2018					
	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	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

6.3 Disclosures on related-party relationships

	Parent companies	Group companies	Associates accounted for using the equity method	Joint ventures in which the company is a joint venturer, accounted for using the equity method	Other related parties	Key management
30 Jun. 2019, EUR '000						
Financial assets - AC	2,888,079	116,267	381,136	500	5,842	2,384
Lease receivables	2,200,927	-	-	-	-	-
Financial assets - FVOCI	-	35	18,507	4,496	-	-
Positive fair value of hedges	97,212	7,802	-	-	-	-
Other assets	1,026	112	25	70	99	-
Financial liabilities - AC	-	140	81,767	363	11,196	2,691
Other liabilities	25	-	-	-	-	-
Interest income	15,188	253	4,498	1	4	3
Interest on debt capital	-	-	-5	-	-3	-2
Dividend income	-	-	707	160	-	-
Fee and commission income	-	1	113	1	6	1
Other income and expenses	851	33	334	386	-20	-
Guarantees provided by the Group	-	-	-	-	-	-
Other obligations incl. unused credit lines	238,002	39,531	26,769	7,221	6,999	17
Guarantees received by the Group	2,752,701	-	-	-	-	-
Credit provisions	-	-	283	-	1	27
31 Dec. 2018, EUR '000						
Financial assets - AC	2,881,409	116,185	375,915	495	6,301	2,509
Lease receivables	2,296,075	-	-	-	-	-
Financial assets - FVOCI	-	-	18,842	4,306	-	-
Positive fair value of hedges	90,131	-	-	-	-	-
Other assets	1,942	112	-	-	662	-
Financial liabilities - AC	64,125	556	68,469	1,989	26,054	3,134
Other liabilities	25	-	-	-	-	-
Interest income	26,820	505	9,521	2	43	4
Interest on debt capital	-35	-	-76	-1	-13	-4
Dividend income	-	-	482	167	139	-
Fee and commission income	-	2	134	-	10	1
Other income and expenses	-1,091	73	626	275	66	-
Guarantees provided by the Group	161,095	-	-	-	-	-
Other obligations incl. unused credit lines	-	39,594	13,583	7,225	8,213	121
Guarantees received by the Group	2,664,955	-	-	-	-	-
Credit provisions	-	-	265	-	-	35

6.4 Risk management

The HYPO NOE Group defines risk as the possibility of unexpected, unfavourable future developments that could have adverse effects on the assets, earnings or liquidity of the Group or individual Group companies.

All significant business activities in pursuit of the Group's strategic goals are planned to reflect strategic risk considerations, with a particularly close focus on risk-bearing capacity. The Bank attaches particular importance to evaluating risks in terms of the relationship between risk and opportunity. Risks are not ends in themselves; they are assumed in the interests of value creation and hence improved risk-bearing capacity, as well as adequate returns on risk capital. The refinement of instruments and processes designed to maintain an appropriate balance of risks and rewards is integral to the Group's long-term strategy.

The Group's risk-bearing capacity is safeguarded by a balanced relationship between risks and coverage capital. To this end, eligible risk coverage capital is very carefully defined, and the confidence level for risk quantification (i.e. the probability of loss) is set at a conservative level.

The disclosure of risks is based on the Group's internal risk management and reporting systems.

Risk management system

Achieving business success necessarily involves taking risks. The HYPO NOE Group practises active risk transformation – risks are incurred on the basis of considered decisions. The Group's risk management objectives are to identify, 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 requiring resolutions of the Group's Supervisory Board.

In principle, all quantifiable risks throughout the HYPO NOE Group are subject to the Group-wide, uniform limit system, which is constantly monitored. No risk may be assumed unless a corresponding limit is in place. The Group-wide risk reporting system ensures that reporting of all risks is regular, timely and comprehensive. In addition to the monthly risk management report, which provides an aggregated summary of all risks and their capital coverage, the Management and Supervisory Boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk-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 (www.hyponoe.at).

The rules for introducing new areas of business or 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 and internal control processes in use, the Group may be exposed to unknown and unexpected risks. Neither 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 banking risk at portfolio level is performed by the Strategic Risk Management Department, and encompasses the identification, measurement, aggregation and analysis of the risks assumed.

Maintenance of adequate risk-bearing capacity is monitored in two control loops:

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.

As at 30 June 2019 the Group was utilising 60.9% of the aggregate risk limit (including an adequate buffer) – marginally higher than at 30 June 2018 (58.7%).

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 a fixed element of the reporting by the relevant management bodies.

The regular review of the Group's recovery plan for 2019, as required by the Act on the Recovery and Resolution of Banks, is under way. It is mainly focused 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 accords 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 conflicts, 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 the possible countermeasures identified are reported to the Management Board, and presented to the Risk Management Committee (RICO) and Risk Committee.

Basel III/IV

While ongoing reporting improvements to meet revised reporting standards have now become routine, preparations for implementing future policies and measurement methods (e.g. Basel IV) and analysing their effects 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 corrective action required in good time.

Supervisory Review and Evaluation Process (SREP)

The acquisition of qualitative and quantitative questionnaire data was concluded in the first half of 2019, and the Bank sent the completed SREP questionnaire to the regulator on time.

This regulatory review process, which covers the entire banking sector, obliges the HYPO NOE Group to maintain an SREP ratio which increases the minimum capital requirements under Pillar I and Pillar II. The FMA notice of May 2019 sets the SREP ratio at 1.6% – a slight decrease from the previous period. The Bank's capitalisation is more than sufficient to meet the revised requirements.

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, and 24.59% of the total risk exposure amount) is comfortably met as there are adequate eligible liabilities and own funds.

Credit 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 a counterparty or guarantor. Credit risk is classified by the product groups concerned, as follows:

- Credit risk for loans
- Replacement risk for derivatives
- Issuer risk for securities

The HYPO NOE Group is also exposed to investment risk, customer foreign currency credit risk, repayment vehicle risk and country risk, for all of which the limits are accordingly set and monitored.

Principles derived from the strategic objectives provide the framework for exposure to and management of individual credit risks. These principles are observed by the Group's operational credit risk management system, which features an appropriate reporting system, agreed limits, appropriate measurement methods and transparent processes.

The Group's credit risk strategy has the following planks:

- Identifying and regularly evaluating credit risks
- Determining models and processes for measuring identified credit risks, and regularly reviewing their suitability
- Quantifying credit risks on the basis of the processes established
- Identifying and complying with legislation and regulatory frameworks
- Determining management's risk appetite/tolerance
- Limiting and monitoring credit risks on the basis of the risk tolerance arrived at
- Appropriate reporting
- Determining processes and procedures for risk-weighted allocation of credit costs

The HYPO NOE Group calculates the capital charge for credit risks using the standardised approach required by Chapter 2 of Title II of Part 3 of the CRR, applying the "simple" credit risk mitigation method.

For retail customers, the Group currently employs an applications rating procedure together with behaviour rating for ongoing evaluation. Corporate customers are assessed using 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. Credit ratings for specialised lending are carried out using the supervisory slotting approach in accordance with Art. 153 CRR, based on income-producing real estate (IPRE) and project finance ratings. In connection with specialised lending, default risk and potential losses are particularly strongly influenced by the commercial success of the funded project. Under the supervisory slotting approach, risk weightings are applied to receivables based on specific factors. 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 on the basis of expert analyses 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 their accounts are constantly monitored.

Country analysis

While European growth rates were better than expected at the start of the year, the economic outlook darkened in the course of the first half of 2019. Export industries were the main sufferers, hit by the persistent trade and political tensions. Thanks to robust domestic demand, all of the EU-28 posted positive growth figures during the period, but their performance presented a very mixed picture. The rapidly expanding CEE economies contrast with Germany and Italy, which posted growth rates well below the EU average.

The public finances of most EU member states are now healthier, although debt has still not returned to pre-crisis levels. With downside risks to the world economy currently preponderant, interest rates are set to remain low. The interest burden on the exchequer is thus likely to remain moderate.

In the banking sector, capital ratios and loan book quality are continuing to improve. 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.

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

Current credit risk situation

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

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

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

Market risk

General

Market risks are potential losses resulting from declines in the underlying value of exposures due to changes in market prices.

Bank-specific market risks include:

- Interest rate risk in the banking book
- Credit spread risk
- Fund price risk
- Foreign exchange risk
- Options risk (volatility risk)
- Trading book risk
- Basis risk in hedge accounting
- 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 establishes the guidelines for managing the various 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 limits, and 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. As a result of changes in conditions on financial markets (e.g. multiple curve approaches and OIS discounting on collateralised derivatives) and in regulatory provisions (Basel III, IFRS 9, etc.), the management of basis risk in hedge accounting, and of CVA risk is assuming ever greater importance. The Bank also uses the small trading book 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 maintaining adequate capital coverage of incurred market risks at all times, and consequently monitoring and controlling the individual risk positions, and ensuring that they are transparent. 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 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, control and limitation 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 reduction in the net asset value of a given portfolio as a result of interest-rate-induced changes in present value.

Interest rate risk management

Monitoring and quantification of interest rate risk is the responsibility of an independent back office department, Strategic Risk Management. Positions with interest rates fixed for indefinite periods are modelled and regularly assessed on the basis of statistical methods and/or expert valuations. During the first half of 2019 the rollover of the bottom layer of deposits was extended from three to seven years because of the low interest rate level and the likelihood of its persistence.

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. Fixed and non-linear interest rate risks are normally hedged. Decisions in favour of strategic banking book interest rate positions are taken by resolution (usually by the ALM Board) or approved under given authorities and executed by the Treasury/Capital Market/FI Department.

Interest rate risk is assessed in the light of gap analyses and interest rate sensitivities. The worst-case change in the present value of the entire banking book is calculated on the basis of the six BCBS interest rate risk in the banking book (IRRBB) scenarios (confidence level of 99.9% for the liquidation approach) and scaled up to 95% for the going concern approach 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.

Risk measurement as required by the OeNB interest rate risk statistics is carried out in compliance with the regulatory requirements. Fixed interest rate gaps between the assets and liabilities sides of the banking book are calculated and then multiplied by a weighting factor. The OeNB sets a weighting factor for each maturity band, which is equivalent to twice the modified duration of a zero-coupon bond and is designed to show the effect of a 200 bp interest rate shock on present value. Risk is calculated separately for each of the main currencies, and the total risk per currency is arrived at by adding absolute figures.

The risk of fluctuations in net interest income is taken into account by repricing risk. Repricing risk measures fluctuations in net interest income resulting from differences in variable reference rates (three-month Euribor, six-month Euribor, etc.) or differences in interest fixing dates for the same reference rates. Repricing risk is individually determined for a 12-month period for each currency, scenario, indicator and product. As the basis for the calculation, a constant balance sheet structure is assumed and the six BCBS scenarios are again applied. It is assumed that new transactions are concluded to replace maturing positions for the same indicator. For fixed-interest positions, it is assumed that new transactions are concluded at the reference rate (e.g. six-month Euribor), as decisions on new fixed-interest positions are taken by ALM on the basis of the market situation and expectations, and not on that of expiring fixed-interest positions. In order to manage net interest income risk with the aid of the repricing risk calculations, interest-sensitive positions with less than one year to maturity or repricing dates within a year are regularly analysed and taken into account in the risk measurement process.

As is the case for the banking book as a whole, limits are set and monitored in the control system for interest-sensitive portfolios for which measurement effects are recognised either directly in the IFRS statement of profit or loss or in IFRS equity. Risk assessment and limit setting are based on present value sensitivities derived from the six BCBS IRRBB scenarios, scaled up to a confidence level of 95%.

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.

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 30 June 2019 and 30 June 2018.

OeNB regulatory interest rate risk statistics	30 Jun. 2019	30 Jun. 2018
OeNB interest rate risk indicator	3.40%	2.90%

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. Credit spread 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.

Foreign exchange risk

The HYPO NOE Group's conservative risk policies are reflected in strict 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 consequence, as at 30 June 2019 the Group was not subject to the minimum own funds requirement for foreign currency positions under the CRR, 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.

Options risk

Volatility risks in the HYPO NOE Group chiefly arise from upper and lower interest rate limits on loans and deposits. These positions are largely managed via the interest rate risk management banking book, by way of appropriate terms and conditions for assets and liabilities. Options are only used for control purposes to a very limited extent.

Trading book risk

The Group does not engage in any business that obliges it to maintain a large trading book as defined by the CRR. It maintains a small trading book in accordance with Art. 94 CRR, and the volume of business is limited accordingly. Daily monitoring is the responsibility of the Strategic Risk Management Department. During the first half of 2019 there were only isolated instances of minor positioning in the small trading book.

Basis risk in hedge accounting

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

FX basis risks arise when the FX basis components in the hedged underlying do not qualify for hedge accounting, but are included in the valuation of the hedge instrument. This leads to the contradictory situation that when the FX basis risk is adequately hedged by a cross-currency swap with matching maturity there is a risk of earnings fluctuations over the term in response to changes in the FX basis spread, due to their inclusion in the valuation of the FX derivative. In economic terms, no risk arises over the entire term of such FX hedges as the periodic effects on earnings completely cancel each other out.

CVA/DVA risk

When calculating the fair value of derivative instruments, account must be taken of the CVA for counterparty risk and the debt valuation adjustment (DVA) for the Bank’s own credit risk. 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. These effects are regularly analysed.

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.

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 daily liquidity risk management

To assist in managing, planning and monitoring the Group's daily liquidity requirements, the Strategic Risk Management Department regularly draws up extensive reports.

Implementation of liquidity risk management

The Strategic Risk Management Department prepares 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 Board also receives regular reports on the liquidity position and limit utilisation from the ALM Committee and RICO.

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.

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 30 June 2019 was a robust 39 weeks (30 Jun. 2018: 52 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 146% as at 30 June 2019 (30 Jun. 2018: 135%). 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, 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.

Numerous other risk indicators and early warning indicators also exist to monitor liquidity risk.

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 first half of 2019 saw strong demand for private placements, opening the way for successful issuance by the HYPO NOE Group. A total of approx. EUR 287m of covered bond and senior unsecured issues were placed, including EUR 88m with maturities of over ten years. This demonstrates investors' confidence in the Bank.

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 regulatory authorities. Where applicable, the minimum regulatory requirements were observed. In future, compliance with the statutory regulations in day-to-day operations will be underpinned by the integration of 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 is steadily refining its liquidity risk management system.

Process-related and technical refinements were made to indicators used in liquidity risk reporting (e.g. the LCR, NSFR and AMM) and the report preparation process 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. Reputational risk is closely related to operational risk, though it is treated as a separate category. 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 a coherent internal control system (ICS) is intended to reduce the probability and minimise the impact of operational risk events. 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.

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 subjects its lending to clear ethical guidelines and business principles, so as to strictly apply 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

"Other risks" consist largely of business risks (the danger of loss as a result of a deterioration in the economic environment, or in the HYPO NOE Group's business relationships) and strategic risks (the danger of losses arising from decisions concerning the Group's strategic focus and business development).

Business risk and strategic risk can subsumed under the term "business model risk". The latter is the risk posed by potential changes in the overall economic environment, including changes in the market environment, customer behaviour and regulatory requirements. It also encompasses the danger of losses arising from decisions on strategic focus and business development taken by the Group or individual Group companies. These can result in long-term declines in earnings, leading to a reduction in shareholder value. The Group monitors, identifies and quantifies potential business model risks and takes negative changes into account in its budgeting and medium-term planning 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.

6.5 Contingent liabilities and credit risk

6.5.1 Contingent liabilities

EUR '000	30 Jun. 2019	31 Dec. 2018
Liabilities arising from guarantees and provision of collateral	149,689	134,956

6.5.2 Credit risk

EUR '000	30 Jun. 2019	31 Dec. 2018
Unutilised facilities	1,058,062	902,773

"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 6.4 Disclosures on related-party relationships.

6.6 Events after the reporting period

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

6.7 Governing bodies of HYPO NOE Landesbank für Niederösterreich und Wien AG

The following persons were members of the Management and Supervisory Boards during the reporting period:

Management Board
Wolfgang Viehauser, Management Board Member Markets and Spokesman
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 Lower Austrian state government
Helmut Frank, office of the Lower Austrian state government

St. Pölten, 9 August 2019
The Management Board

Wolfgang Viehauser
Management Board Member Markets
and Spokesman

Udo Birkner
Management Board Member
Finance, Risk & Operations

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the condensed 2019 interim consolidated financial statements of the HYPO NOE Group give a true and fair view of the Group's assets, finances and earnings as required by the applicable accounting standards, and that the Group interim operational and financial review gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim consolidated financial statements, and of the principal risks and uncertainties to which the Group will be exposed during the remaining six months of the financial year.

IAS 34 was applied in the preparation of the condensed 2019 interim consolidated financial statements. Essentially the same accounting policies were applied as to the financial statements for the year ended 31 December 2018.

The 2019 semi-annual financial report was neither fully audited nor reviewed by independent auditors.

St Pölten, 9 August 2019
The Management Board

Wolfgang Viehauser
Management Board Member Markets
and Spokesman

responsible for

Sales Support & Ombudsman, Marketing & Communication, 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 & AML, Human Resources, Finance, Risk, Operations/Organisation & IT, Real Estate Services and Internal Audit

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