SEMI-ANNUAL FINANCIAL REPORT 2021

HYPO NOE

CURRENT RATINGS

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

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

ISS ESG: C+ Prime status sustainability rating

GROUP FINANCIAL HIGHLIGHTS

EUR '000

Consolidated statement of comprehensive income	H1 2021	H1 2020
Net interest income	69,927	63,565
Administrative expenses	-56,976	-59,655
Impairment gains/losses on financial assets – IFRS 9 ECL	3,760	-5,073
Profit before tax	**33,972**	**14,312**
Income tax expense	-8,082	-3,266
Profit for the period	**25,890**	**11,046**
Return on equity before tax	9.51%	4.21%
Cost/income ratio	53.13%	57.87%
Consolidated statement of financial position	**30 Jun. 2021**	**31 Dec. 2020**
Total assets	16,687,574	16,416,615
Financial assets – AC	13,450,484	13,230,957
Financial liabilities – AC	14,788,363	14,274,540
Equity (incl. non-controlling interests)	729,956	710,362
NPL ratio	0.68%	0.78%
Regulatory indicators	**30 Jun. 2021**	**31 Dec. 2020**
Eligible Tier 1 capital	689,390	691,311
Total eligible capital	689,390	691,311
Minimum capital requirement (Pillar I)	313,031	308,546
Excess equity	376,358	382,765
Total risk exposure amount in accordance with Art. 92(3) CRR	3,912,892	3,856,823
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	17.62%	17.92%
Total capital ratio in accordance with Art. 92(2)(c) CRR	17.62%	17.92%
LCR	256.68%	199.55%
Operational resources	**30 Jun. 2021**	**31 Dec. 2020**
Number of employees at period end	632	714
Number of branches	27	27

Further information regarding the change in the number of employees at period end can be found in Note 5.2 Net other operating income.
The intra-year indicators are annualised on a daily basis. For details of the calculation see section 3.2 Earnings performance.

FOREWORD BY THE MANAGEMENT BOARD

Dear reader

The first half of 2021 presented renewed challenges and was defined, as was the previous year, by the coronavirus pandemic and the efforts to combat its impact on the global economy and society. Despite the difficult economic environment worldwide, the HYPO NOE Group can look back on a good half-year. We provided outstanding support to our customers in the form of comprehensive advice and services – for instance, in connection with the coronavirus support schemes – as well as further expanding our online services in line with our strategy. Thanks to a raft of measures to protect our staff from transmission of the virus, we were able to prevent the formation of infection clusters. We are continuing to keep full-time home working wherever this is possible, in order to minimise contact.

Thanks the Group's stable, risk-aware business model, HYPO NOE remained well-equipped to face the challenges of the coronavirus crisis in the first six months of 2021. Sharpening the focus of the Group's strategy – an initiative launched in 2019 as part of the organisational development process – paid dividends in the first half of 2021. Core earnings grew significantly, by 9.8%, to EUR 79.7 million (m). Net interest income made a major contribution, advancing to EUR 69.9m. At the same time we were able to reduce administrative expenses by 4.5% to EUR 57m, which resulted in an improvement in the cost-income ratio (CIR), to 53.13%. The extremely low non-performing loan (NPL) ratio of 0.68% underpins our business model, as does the Common Equity Tier 1 ratio of 17.62%. The latter figure is significantly above the Austrian average of 14.72% and well over the regulatory minimum of 12.62%.

The Group has already secured a substantial proportion of its refinancing needs for 2021 with two bond issues in the first half: a EUR 500m senior preferred benchmark issue, and a EUR 500m public sector covered bond benchmark issue.

In addition to the pleasing performance in the first half of the year, HYPO NOE expanded and further advanced its digitalisation projects. An example is the co-browsing support provided by our Customer Service Centre on questions relating to the 24/7 online banking service. After being granted permission by the customer, staff connect securely to the customer's screen, enabling them to clear up any questions and demonstrate solutions quickly and easily. We also reopened our newly refurbished flagship branch in Vienna's city centre at the end of May, following a feel-good redesign. The branch has six individually designed meeting rooms with a living-room feel, offering space for customer consultations in a comfortable, relaxed atmosphere, as well as a reception point and a cash desk. Customers can also still take advantage of a 24-hour foyer equipped with ATMs and statement printers. Besides the feelgood factor, sustainability and feedback from customer advisors played central roles in the redesign. Energy efficient technology was installed, and recycled floors and eco-friendly wall paint were used in the refurbishment. The work was carried out by local craft firms.

HYPO NOE is a trailblazer when it comes to climate and environmental protection. Following our issue of Austria's first-ever green bond in 2020 – with ecolabel certification – at the beginning of this year we launched our green product line. The Green Account allows customers to choose which of two sustainability projects they would like to support. And deposits in our green savings accounts are invested exclusively in projects that support UN Sustainable Development Goals 7, 9, 11 and 13. Compliance with these rules is strictly monitored, since our saving products are also ecolabel certified. We are also proud that we have put ourselves forward to partner the klimaaktiv Pakt through to 2030. We have made a voluntary commitment to this initiative of the Austrian Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology, and to reducing our greenhouse gas emissions by at least 50% relative to 2005 levels by 2030. In addition, sustainability rating agency Vigeo Eiris (V.E) has awarded us above-average ratings. With a "robust" assessment from V.E, HYPO NOE was given top marks among the nine organisations in the Austrian retail and specialised banking sector, and the second-highest rating out of all 14 banks evaluated by V.E in Austria. The bank achieved above-average results in all three of the performance categories analysed by V.E: environment, social and governance. Meanwhile, rating agency Sustainalytics awarded HYPO NOE Landesbank a score of 22.9 (medium risk). This means that Landesbank is rated among the top 20% of the world's most sustainable banks, and in the top 15% of the 408 diversified banks in its peer group.

We are upbeat about the many Covid-19 vaccination options in Lower Austria and Vienna, and are confident that we will soon be able to return to making the most of our greatest strength – providing individual advice, face-to-face.

Wolfgang Viehauser and Udo Birkner

GROUP OPERATIONAL AND FINANCIAL REVIEW

FOR THE SIX MONTHS ENDED 30 JUNE 2021 ACCORDING TO IFRS

1 ECONOMIC CLIMATE

1.1 Global economic and financial market trends

Following the severe setback in the second quarter of 2020 due to the Covid-19 pandemic, the world economy has staged a strong recovery. This positive trend was powered by expansionary monetary and fiscal policies, as well as the development of effective coronavirus vaccines. Through the extensive supply of liquidity for the financial markets, the fall of interest rates to a historic low, and large-scale asset purchase programmes, the central banks created highly favourable conditions for the economy. The central banks' monetary measures helped their governments fund hefty stimulus programmes. The vaccination process launched towards the end of 2020 in the industrialised countries also played a crucial part in the economic rebound. The vaccination campaign got off to a comparatively hesitant start in Europe. However, at the start of the second quarter of 2021 deliveries of vaccine doses to Europe rose sharply. As a result the gap between the vaccination rates (proportion of the population that has received at least a first shot) in the USA and EU – wide for a while – steadily narrowed. According to information from the online scientific publication Our World in Data, at the end of the reporting period the vaccination rate averaged 50.5% in the EU and 53.8% in the USA.

While the world economy was mainly kept afloat by the good performance of the US and Chinese economies from last autumn onwards, in the eurozone the recovery was interrupted by coronavirus protection measures. According to Eurostat, after a quarter-on-quarter contraction of 0.6% in the fourth quarter of 2020, gross domestic product (GDP) shrank by a further 0.3% in the first quarter of 2021. Despite the protracted lockdown measures over the two winter quarters the economy showed itself to be resilient. However, growth trends by sector were very mixed. While the manufacturing sector posted a very strong recovery, with rapid growth in orders, the service sector went through a lean period. The tourist, hotel and hospitality, and culture and events industries were particularly hard hit.

The progress made by the vaccination drive during the second quarter of 2021 led to the lifting or easing of restrictions imposed by many governments in connection with Covid-19. These relaxation measures led to an anticipated growth spurt in the service sector. While sentiment in the manufacturing sector raced ahead, with the Purchasing Managers' Index (PMI) hitting an all-time high of 63.4 in June, the arrival of spring also brought a brighter mood in the service sector. With an index reading of 58.0, by June the Services PMI had already regained the previous high recorded at the start of 2018. The European economy is now pulling its weight in global economic growth, contributing to a broader-based upturn.

Conditions in the labour market have improved further this year. According to Eurostat, since peaking at 8.5% in August 2020 unemployment in the Eurozone has fallen almost uninterruptedly to stand at 7.9%. However, with support measures – and in particular short-time working schemes – still in place the unemployment rate is an imperfect indicator. Although the number of workers enrolled on short-time working schemes had fallen significantly, according to the European Central Bank (ECB) employment in the eurozone as of the end of March 2021 was some 3.36 million (m) below its level at the end of 2019. In the USA employment was still about seven million below its pre-crisis level despite the rapid improvement in the labour market.

The global recovery brought a marked intensification of inflationary pressures during the first half. Eurozone inflation rose to 2% in May (Eurostat). US inflation was considerably higher at 5% (Bureau of Labor Statistics). A significant portion of the price increases was attributable to statistical base effects, as prices of finished goods and raw materials had decreased in the previous year. In addition there were special factors such as the expiry of the temporary value added tax cut and the partial introduction of a carbon tax at the start of the year. The powerful synchronised global upswing also led to some bottlenecks, such as shortages of raw materials, transport capacity and microprocessors, which added to the inflationary pressures.

Central banks maintained the previous year's expansionary monetary course during the first half of the year. However, at the end of the reporting period there were signs that some central banks wish to prepare the financial markets for a progressive tapering of support measures in the course of the next 12 months, owing to growth and inflation trends.

The international financial markets put in stellar performances for the first half of 2021. Accommodative monetary and fiscal policies, and rapid growth of GDP and corporate profits were fertile ground for rising prices. Despite the recent emergence of worries about a new Covid-19 mutation and fears that some central banks will withdraw their support for the economy more quickly in the event of persistently high inflation, the stock price gains recorded since the start of the year have held. On the credit market, risk premiums were pegged at low levels by constant central bank intervention. Most raw material prices benefited from the bottlenecks caused by the recovery, and only gold and silver were largely left empty handed by the commodity price run-up on the year. While money market rates appeared virtually frozen, there was an upward shift in capital market rates at the long end of the curve. Rising inflation and the strong economy caused bond investors to tread more cautiously. This picture persisted with little variation for long periods during the first half. In March the yield on ten-year US Treasury notes reached on intra-year high of just under 1.8%. The yield on German Bunds peaked about six weeks later at -0.07%. Ultimately consolidation set in, with the yield on US Treasury notes standing at just under 1.5% at the end of June, and that on Bunds at -0.2%.

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

1.2.1 Austria and Germany

The Covid-19 pandemic led to massive output declines in Austria and Germany – the HYPO NOE Group's core markets – with exports and private consumption most affected. In its May forecast, the European Commission predicted falls in real GDP for 2020 of 6.3% for Austria and 4.8% for Germany (eurozone average: -6.5%). After a significant drop in economic output in the first half of 2020, the third quarter saw an exceptionally strong but short-lived rebound. This was halted by the second and third waves of the pandemic, lasting from October to May 2021.

According to the Oesterreichische Nationalbank (OeNB) the economic impact of the Covid-19 pandemic in Austria in 2020 was most clearly apparent in lower exports (-10.9%), declining household consumption (-9.4%) and a reduced propensity to invest on the part of businesses (capital investment was down by 4.8%). Owing to the lockdown measures enacted and the incipient third wave, there were heavy output losses from December 2020 to April 2021, particularly in the winter tourism and retail sectors. During this period the construction industry only registered marginal production declines, but was confronted with marked increases in the prices of building materials and with bottlenecks along its supply chains.

In 2020 the hesitant mood among consumers led to a year-on-year jump in the savings rate from 8.2% to 14.4%. Unemployment in terms of the national definition used by the Public Employment Service Austria (AMS) was 3% down year on year, at 7% in June 2021. The Austrian labour ministry reported that the number of persons subject to the short-time working arrangements plunged by 39%, to 300,000, over the same period. According to OeNB data, real disposable income contracted by some 3% year on year in 2020.

Owing to the sharp economic downturn and the anti-cyclical support measures it necessitated, OeNB forecasts see Austria's budget deficit climbing to 8.9% of GDP, following a surplus of 0.7% a year earlier. Public debt is expected to come in at 83.9% of GDP. The picture is similar in Germany, with the budget deficit swelling to 8.1% and the public debt ratio to about 70%. Private sector debt in the HYPO NOE Group's core market is still well below the average level in the eurozone as a whole.

1.2.2 Federal states

At the level of the individual Austrian federal states, the depth of the recession differed according to the structure of the economies concerned. States where tourism, exports and industry accounted for greater proportions of GDP were most affected by restrictions introduced due to Covid-19. According to UniCredit Research, the contraction ranged from 8.7% in Tyrol to 4.7% in Burgenland. Lower Austria was mid-table with a decline of 6.3%.

Following a marked improvement in the budget situation across all the states in the preceding period, the pandemic caused significant net funding deficits totalling EUR 3.5bn, which had to be met by borrowing and running down reserves, among other measures. In the light of the federal states' supplementary estimates, it appears that their aggregate debt rose by about 10% to some EUR 26bn in 2020.

1.3 Banking sector trends in the eurozone

The Covid-19 pandemic presented major challenges for the global economy, and consequently for the banking sector, as well. Particularly at European level, the banking sector – backed by the ECB's measures and national stabilisation programmes – played a central role in providing liquidity for businesses, and helped soften the macroeconomic impact of the pandemic. The regulatory measures taken in response to the 2008 global financial crisis enhanced the sector's ability to withstand crises.

The OeNB again attested to the robustness of the domestic banking sector's business model in its June 2021 financial stability report. The average equity ratio (CET1) of 16.1% at 31 December 2020 confirms that Austrian banks are well-placed to withstand further adverse developments. The non-performing loan (NPL) ratio edged up from 2.2% to 2.4% in 2020. The OeNB welcomed the recognition of appropriate provisions. While the operating results of Austria's banks were relatively stable year on year, at a combined loss of 0.5%, the resultant increase in risk provisions cut profit for the year by about 45%. However, the Austrian banking sector's sound equity base has a stabilising effect.

The country's banks are among those that have benefited from the restructuring exercises of recent years. In the course of an extended consolidation process, the number of banks (main institutions) has decreased by around a quarter since 2012. Although this process has recently slowed it is likely to continue across Europe.

The prevailing low-interest-rate environment continued to pose a challenge for the entire European financial sector, and there is no let-up in sight over the next few years. Of late, the equity ratios of financial institutions in the European Union have stabilised at high levels. Another key trend apparent was the ongoing digitalisation of customer offerings. The multi-channel approaches - which in the case of universal banks still include branches, augmented by digital offerings - remained the usual strategy in Europe.

2 COMPANY PROFILE

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

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

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

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

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

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

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

[1] In terms of total assets (2020 consolidated financial statements) and founding date

3 FINANCIAL REVIEW

3.1 Highlights

- "Profit before tax" up to EUR 34.0m (H1 2020: EUR 14.3m)
- Another strong showing by core earnings: "Net interest income" up by 10%, "Net fee and commission income" by 8.1% year on year
- 4.5% year-on-year fall in "Administrative expenses"; first-half CIR 53.13%
- NPL ratio at a new all-time low of 0.68% as at the end of the reporting period (31 Dec. 2020: 0.78%); risk provisions (ECL) in the performing loan portfolio at a solid 126 bps as a proportion of RWA
- CET1 ratio at a lofty 17.62% (pro forma figure incl. interim result: 18.3%) as at 30 June 2021

3.2 Earnings performance

		Q2 2021	Q4 2020	Q2 2020	Q4 2019
Return on equity before tax	Profit before tax/ave. consolidated equity	9.51%	5.91%	4.21%	5.60%
Return on equity after tax	Profit for the period/ave. consolidated equity	7.25%	4.57%	3.25%	4.51%
Cost/income ratio	Operating expenses/operating income	53.13%	53.29%	57.87%	59.51%
NPL ratio	Carrying amounts of non-performing financial assets – AC (excl. banks)/financial assets – AC (excl. banks)	0.68%	0.78%	0.89%	0.96%

The HYPO NOE Group reported a profit before tax of EUR 34.0m for the first half of 2021 (H1 2020: EUR 14.3m) and a return on equity (ROE) before tax of 9.51% (H1 2020: 4.21%). Roll-out of the Fokus 25 strategy is on course despite the challenging business environment. Increased income from the customer business and another decline in costs were the platform for a sharp rise in earnings. Operating profit (before risk costs) accordingly climbed to EUR 30.2m, compared to EUR 19.4m in the first half of 2020. The cost/income ratio[2] (CIR) decreased to 53.13% (H1 2020: 57.87%). The extensive ECL modelling of potential Covid-19 effects remains in use.

Core earnings jumped by 9.8% to EUR 79.7m – up from EUR 72.6m in the first half of the previous year. The main contributor to this improvement was net interest income, which grew by 10% year on year to EUR 69.9m. Despite lower customer footfall due to Covid-19, net fee and commission income rose by 8.1% to EUR 9.8m (H1 2020: EUR 9.0m). The recent accelerated expansion of multi-channel and online marketing helped power this trend. Ongoing efficiency measures were systematically driven ahead, further trimming administrative expenses by 4.5% to EUR 57.0m (H1 2020: EUR 59.7m). The end of the obligation to pay the financial stability contribution instalment also had a positive impact, as did the completion of restructuring of the real estate services business. However, these factors were partly offset by higher contributions to the deposit insurance and resolution fund.

The cost of risk (expected credit loss, ECL) amounted to EUR 3.8m (H1 2020: EUR -5.1m) although full account was again taken of macroeconomic risk as well as any implications of Covid-19 for the portfolio. The Group's ECL models are based on the latest OeNB forecasts. The GDP inputs are -6.7% for 2021 and -3.1% for 2022. In terms of risk-weighted assets (RWA), risk provisions in the performing loan portfolio (stages 1 and 2) were a very solid 126 bps as at 30 June 2021. Statutory and voluntary payment deferral agreements remained low at the end of the period relative to the total outstanding loan amounts, at 0.4% of the amortised cost (AC) portfolio (31 Dec. 2020: 0.9%).

[2] Operating expenses/operating income

3.3 Balance sheet movements

The first six months of 2021 saw some EUR 750m in new lending within the Bank's core businesses – infrastructure, housing construction and corporates (H1 2020: EUR 900m). Financial assets held steady at the EUR 14.3m reported at year-end 2020, although the proportion measured at amortised cost increased again, to 94%. Margins on new business widened further – in comparison to both H1 2020 and budget targets – supporting the net interest income.

The equity and liabilities side of the balance sheet was marked by somewhat higher "Financial liabilities – AC" as at mid-year (up by 3.6% on 31 Dec. 2020 at EUR 14.8bn). The increase in the first half of 2021 largely reflects the success of two benchmark bond issues – in the senior preferred and covered bond formats – as well as a higher TLTRO III volume due to the introduction of an additional special interest period by the ECB. In response to the present higher tender volume the institutional deposits were temporarily run down so as to reduce excess liquidity, meaning that customer deposits (excl. TLTRO III) as at 30 June 2021 held at a high EUR 4.6bn. Owing to pre-funding and the ECB tender, "Total assets" spiked at EUR 16.7bn as at 30 June 2021 (31 Dec. 2020: EUR 16.4bn).

The NPL ratio narrowed to 0.68% as at 30 June 2021 – an all-time low (31 Dec. 2020: 0.78%). This is a reflection not just of systematic intensive care but also of risk-aware lending focused on infrastructure and housing finance. The NPL coverage ratio climbed to stand at an elevated 79.13% as at mid-year, compared to 75.18% at year-end 2020.

3.4 Segment performance

The HYPO NOE Group extended the previous year's upturn in "Profit before tax", posting a gain of EUR 19.7m to EUR 34.0m (H1 2020: EUR 14.3m). All of the operating segments played a part in this highly satisfactory showing.

Public Sector

Developing custom financing solutions and delivering banking services to state governments, local and regional authorities, and public agencies are among the HYPO NOE Group's core competences. Segment profit for the first half of 2021 rose to EUR 12.1m (H1 2020: EUR 8.4m). This reflects the success of the Group's positioning as an adviser of public-sector and government-linked customers. The segment has responded effectively to the increased pressure on margins in its low-risk lines of business by focusing on efficiency gains with a view to pruning administrative expenses. Positive developments in the customer derivatives market led to an improvement in net gains on financial assets and liabilities. A successful property transaction by a segment entity accounted for using the equity method also contributed to the profit for the first half of 2021.

Real Estate

The range of services provided by the Real Estate segment – another mainstay of the HYPO NOE Group's business model – was given a sharper focus during the period under review. Following the completion of the restructuring activities, the Real Estate Services segment was dissolved in the first half of 2021. The units belonging to the former segment that were retained within the Group for strategic reasons are now assigned to the Real Estate segment.

Segment profit for the first half of 2021 progressed to EUR 11.1m (H1 2020: EUR 9.7m adjusted for the change in segment composition, pursuant to para. 29 IFRS 8). This upturn is chiefly attributable to a significant increase in net interest income due to successful financing operations in the segment. Net other operating income was affected by a sharp fall in penalties for early repayments as compared to the first half of 2020. Besides its successful business activities, this segment's cost-effective approach was a factor in its good results.

Retail and Corporate Customers

The Retail and Corporate Customers segment also put in a gratifying performance, with profit before tax up by EUR 8.6m year on year at EUR 10.7m. This improvement largely resulted from a let-up in the risk situation, which had been burdened by the outbreak of the Covid-19 pandemic in March 2020. This easing in comparison to the previous period positively impacted "Net gains or losses on financial assets and liabilities" (particularly direct write-offs) as well as the "Impairment losses/gains on financial assets – IFRS 9 ECL" item.

The Retail and Corporate Customers segment was the principal source of Group "Net fee and commission income", generating EUR 7.7m (H1 2020: EUR 6.7m). This contribution grew in the first half of 2021 as compared to the like period in the previous year (when it was particularly hard hit by the Covid-19 pandemic in the second quarter due to a fall-off in face-to-face advice as well as to customers' financial difficulties), and exceeded the level reached in the first half of 2019.

Treasury & ALM

Thanks to proactive liquidity management, interest rate risk positioning within strict limits and the exploitation of existing money market opportunities – in particular the TLTRO III programme, for which the ECB adjusted the terms in the course of the Covid-19 pandemic – the segment recorded a significant uptick in net interest income to EUR 17.4m (H1 2020: EUR 13.6m).

Segment "Net gains or losses on financial assets and liabilities" escalated to EUR 2.8m (H1 2020: EUR 0.4m). The key factors behind this were the recovery of the market prices of securities mandatorily measured at fair value in accordance with IFRS 9 (SPPI test) and improved "Net gains or losses on hedges".

The first half of 2021 saw two well-received benchmark issues (a covered and a senior preferred bond) which bore out positive perceptions of HYPO NOE Landesbank as an issuer.

3.5 Equity

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

Consolidated eligible capital in accordance with the CRR/CRD as amended was EUR 689.4m as at 30 June 2021 (31 Dec. 2020: EUR 691.3m).

Excess equity excluding buffers stood at EUR 376.4m as at 30 June 2021 (31 Dec. 2020: EUR 382.8m), compared with a capital requirement of EUR 313.0m (31 Dec. 2020: EUR 308.5m). The Tier 1 capital ratio under Article 92(2)(b) CRR and the total capital ratio under Article 92(2)(c) CRR were 17.62% as at 30 June 2021 (31 Dec. 2020: both ratios 17.92%), and were identical to the fully loaded ratios (31 Dec. 2020: both 17.92%). Taking account of the interim result and prorating of the contributions to the resolution and deposit insurance fund, which is already fully expensed, the pro forma Tier 1 capital ratio and total capital ratio were about 18.3%.

The end of the reporting period, on 30 June 2021, for the first time brought mandatory application of all of the modifications to the calculation of the own funds requirement relevant to the Group, which were progressively introduced by Regulations (EU) No 2019/876 and No 2020/873 (CRR II). These feature:

- The recasting of the SME supporting factor created by Art. 501 CRR
- The replacement of the mark-to-market method by the standardised approach for counterparty credit risk, under Art. 274ff CRR
- The reintroduction of the transitional arrangements for zero weighting of exposures to central governments that are denominated in a Community currency but not the domestic currency (Art. 500[a] CRR)

In all, these new arrangements brought relief for about EUR 100m in risk weighted assets (RWA), resulting in an improvement of about 40 basis points for the CET1 ratio alone.

There are no effects on the HYPO NOE Group from other amendments, either through a lack of relevant existing business (e.g. the infrastructure supporting factor under Art. 501a CRR) or through decisions not to apply certain standards (e.g. the adapted transitional arrangements for IFRS 9 under Art. 473a CRR).

Also applicable for the first time were the arrangements for a new own funds deduction in accordance with Art. 36 (1)(m) CRR. The so-called "prudential backstop" reduced CET1 and hence eligible capital by approx. EUR 0.54m. However, this effect is almost completely cancelled out by lower deductions from intangible assets and the conservative treatment of assets measured at fair value.

4 RISK REPORT

The notes contain descriptions of the objectives and methods of risk management, and details of material risks (see Note 8 Risk Management).

5 EQUITY INVESTMENTS AND BRANCH OFFICES

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

Details of changes in the scope of consolidation can be found under Note 9.1 Scope of consolidation.

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

As at 30 June 2021 HYPO NOE Landesbank had 27 branches in Lower Austria and Vienna.

6 INVESTOR RELATIONS

Timely, comprehensive and transparent capital market communications are a central concern for the HYPO NOE Group. Investors, institutional customers and analysts receive regular updates on the Group's business performance as well as current developments. This relies both on one-on-one communication with banks, insurance companies, pension funds and investment companies, and on extensive information provided online at www.hyponoe.at/en/ir.

Owing to the Covid-19 pandemic, which continued in the first half of 2021, the conversation with investors and analysts largely migrated to telephone and video conferences. International investors and analysts also took part in an earnings call timed to coincide with the publication of the results for 2020. Besides the ongoing results announcements, attention centred on the Bank's issues so far in 2021 – a senior preferred benchmark bond issue in March and a public benchmark covered bond issue in June. In June 2021 HYPO NOE Landesbank published the impact report on its first outstanding green bond.

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

7 GROUP OUTLOOK

7.1 Economic environment

The GDP forecasts for 2021 and 2022 have recently been upgraded more than once. In March the International Monetary Fund (IMF) predicted global economic growth of 6% and 4.4% in the two years, respectively. The projections for the US economy were recently raised to 7% in 2021 and 4.9% in 2022. The IMF also expects the Eurozone to record comparatively high growth rates, namely 4.4% in 2021 and 3.8% in 2022. The accuracy of these projections depends on the absence of significant disruptive factors.

Uncertainty as to the future course of the pandemic remains, since despite the progress made with vaccination it is still impossible to say whether the desired herd immunity is achievable, or whether the vaccines will be effective against possible new mutations. Coming geopolitical developments – in particular regarding the tensions between the USA and China – also remain to be seen. Downside risks to an essentially highly positive outlook could arise from the current shortages of raw materials and microchips, as well as transport capacity bottlenecks.

A possible exit from loose monetary and fiscal policies could also cause temporary disturbances. The current valuations of shares appear high, but the market environment should remain constructive in coming months. Capital market rates are likely to continue to trend upwards, at least at a moderate pace, on the back of an unfolding economic recovery.

Given satisfactory progress with vaccination and a gentle fade-out of the pandemic, the Austrian economy will probably be given an increasing lift by the fiscal support measures as well as heavy catch-up spending across the board. Global demand growth also points to escalating industrial production, visible exports and investment in the second half. Eurostat sees unemployment falling to an annual rate of 4.6% over 2021 as a whole. Also according to Eurostat, economic growth is set to come in at 3.4% in both of our core market countries, Austria and Germany.

7.2 Outlook for Group performance

In what remained a testing environment, the HYPO NOE Group marked up a year-on-year improvement in profits for the first half of 2021. This is expected to lay the groundwork for a solid performance over the rest of the year. Covid-19 related restrictions are still in place, but the vaccination roll-out should mean that business activity is increasingly normalised during the second half of 2021 – particularly in the Austrian and German markets, which are vital to the Group. Defaults are expected to rise as government support measures expire. In 2020 the HYPO NOE Group began taking the possible effects of the Covid-19 crisis into account in its expected credit loss (ECL) models and recognised additional risk provisions.

In line with its core competences, low-risk infrastructure and housing construction lending will remain the mainspring of the Group’s business model. These areas of activity have consistently shown themselves to be particularly resilient across the business cycle. Our well tried strategy will therefore continue to focus on expanding our core business in our core markets, while maintaining a conservative risk and capital profile. With an eye to digitalisation, close attention will be paid both to ongoing process automation and to the systematic development of digital solutions for the mortgage business, relating to both the customer interfaces and the back office lending processes behind them.

Due to steady increases in efficiency, the lapsing of financial stability contribution instalment payments, and the sale of HYPO NOE First Facility GmbH – the final stage of the restructuring of the former real estate services business – during the first half, a further reduction in administrative expenses is expected in 2021.

Successful issuance in the first half met most of the refinancing needs for 2021 as a whole. Subject to the success of the lending business over the remainder of the year, the focus of capital market refinancing in the second half will be on covered bonds. Maintaining the high level of deposits built up in recent years will remain an objective in the medium term.

St Pölten, 11 August 2021
The Management Board

Wolfgang Viehauser
Management Board Member Markets
and Speaker of the Board

Udo Birkner
Management Board Member Finance,
Risk & Operations

HYPO NOE Group

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 ACCORDING TO IFRS

1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Gains/losses

EUR '000	Notes	H1 2021	H1 2020
Interest and similar income measured using the effective interest method		126,855	121,720
Interest and similar income not measured using the effective interest method		90,124	96,533
Interest and similar expense		-147,070	-154,698
Dividend income		17	10
Net interest income	4.1.1	69,927	63,565
Fee and commission income		11,242	10,647
Fee and commission expense		-1,491	-1,626
Net fee and commission income	**5.1**	**9,750**	**9,021**
Net measurement gains or losses		4,101	-668
Net gains or losses on derecognition of financial assets		-	32
Net gains or losses on financial assets and liabilities	**4.1.2**	**4,100**	**-636**
Other operating income	**5.2**	**10,834**	**16,225**
Other operating expense	**5.2**	**-9,066**	**-10,382**
Administrative expenses	**5.3**	**-56,976**	**-59,655**
Impairment losses/gains on financial assets – IFRS 9 ECL	**4.4.3**	**3,760**	**-5,073**
Net gains on investments accounted for using the equity method		**1,644**	**1,249**
Profit before tax		33,972	14,312
Income tax expense	7.1	-8,082	-3,266
Profit for the period		25,890	11,046
Non-controlling interests	3.2	-8	-70
Profit to owners of the parent		25,882	10,976

Other comprehensive income

EUR '000	Notes	H1 2021	H1 2020
Profit for the period		**25,890**	**11,046**
Changes in valuation that will not be reclassified to profit or loss		**-141**	**290**
Equity instruments – FVOCI		-114	-133
Actuarial gains and losses		-27	423
Changes in valuation that will be reclassified subsequently to profit or loss		**-1,719**	**-3,358**
Debt instruments – FVOCI		-1,533	-3,048
Debt instruments – FVOCI reclassified to profit or loss		-185	-359
Hedges (hedge accounting)	4.5.2	-	49
Other comprehensive income		-1,860	-3,068
Total comprehensive income		24,030	7,978
Non-controlling interests	3.2	-8	-70
Comprehensive income attributable to owners of the parent		24,022	7,908

The changes in valuation included in "Other comprehensive income" and all related sub-items are presented net of related tax effects, in accordance with paragraph 91(a) IAS 1.

2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

EUR '000	Notes	30 Jun. 2021	31 Dec. 2020
Cash and balances at central banks	4.2	1,845,405	1,463,942
Financial assets - HFT	4.2	351,102	417,189
Financial assets - mandatorily FVTPL	4.2	147,838	171,312
Financial assets - FVOCI	4.2	378,121	514,991
Financial assets - AC	4.2	13,450,484	13,230,957
Positive fair value of hedges (hedge accounting)	4.5.2	344,798	445,780
Investments accounted for using the equity method		32,130	31,074
Investment property	6.1	34,491	36,693
Intangible assets		171	241
Property, plant and equipment		65,131	65,475
Current tax assets	7.2	23,178	21,163
Deferred tax assets	7.2	362	408
Other assets	6.3	14,365	17,390
Total assets		16,687,574	16,416,615

Equity and liabilities

EUR '000	Notes	30 Jun. 2021	31 Dec. 2020
Financial liabilities - HFT	4.3	323,782	388,764
Financial liabilities - FVO	4.3	5,756	5,309
Financial liabilities - AC	4.3	14,788,363	14,274,540
Negative fair value of hedges (hedge accounting)	4.5.2	671,779	829,132
Provisions	6.2	72,302	69,367
Current tax liabilities	7.3	14,142	10,052
Deferred tax liabilities	7.3	22,643	22,853
Other liabilities	6.3	58,852	106,237
Equity	3.1	729,956	710,362
Equity attributable to owners of the parent	3.1	721,618	701,382
Non-controlling interests	3.2	8,338	8,980
Total equity and liabilities		16,687,574	16,416,615

3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 Jun. 2021 EUR '000	1 Jan. 2021	Profit for the period	Reversals	Dividends paid	Other comprehen-sive income	Other changes	30 Jun. 2021
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	452,557	25,882	42	-3,800	-	-17	474,664
Other reserves composed of:	**5,020**	**-**	**-28**	**-**	**-1,860**	**17**	**3,149**
Actuarial gains and losses	-4,462	-	-	-	-27	17	-4,473
Debt instruments - FVOCI	9,034	-	-	-	-1,719	-	7,315
Equity instruments - FVOCI	449	-	-28	-	-114	-	307
Hedges (hedge accounting)	-	-	-	-	-	-	-
Equity attributable to owners of the parent	701,382	25,882	14	-3,800	-1,860	-	721,618
Non-controlling interests	8,980	8	-650	-	-	-	8,338
Equity	710,362	25,890	-636	-3,800	-1,860	-	729,956

30 Jun. 2020 EUR '000	1 Jan. 2020	Profit for the period	Reversals	Dividends paid	Other comprehen-sive income	Other changes	30 Jun. 2020
Share capital	51,981	-	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	-	191,824
Retained earnings	424,706	10,976	-	-3,500	-	-	432,182
Other reserves composed of:	**6,576**	**-**	**-**	**-**	**-3,068**	**-**	**3,508**
Actuarial gains and losses	-5,878	-	-	-	423	-	-5,455
Debt instruments - FVOCI	11,717	-	-	-	-3,407	-	8,310
Equity instruments - FVOCI	809	-	-	-	-133	-	676
Hedges (hedge accounting)	-72	-	-	-	49	-	-23
Equity attributable to owners of the parent	675,087	10,976	-	-3,500	-3,068	-	679,495
Non-controlling interests	8,415	70	-	-	-	-	8,486
Equity	683,502	11,046	-	-3,500	-3,068	-	687,981

The “Other changes” item includes effects related to the change in non-controlling interests.

4 CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	H1 2021	H1 2020
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	1,463,942	235,481
Profit for the period (before non-controlling interests)	**25,890**	**11,046**
Adjustments for interest income and expense	-69,926	-64,916
Non-cash items from operating activities	**-83,436**	**3,019**
Amortisation, depreciation, impairment and write-ups on property, plant and equipment, intangible assets and investment property	2,998	3,360
Allocations to and reversals of provisions and risk provisions	738	7,130
Net measurement losses or gains on financial assets and liabilities	-4,101	668
Change in positive and negative fair value of hedging instruments	-62,854	48,784
Other adjustments	-20,216	-56,924
Changes in assets and liabilities due to operating activities	**416,354**	**2,030,152**
Financial assets – AC	-223,311	-725,184
Financial assets – mandatorily FVTPL	26,449	30,952
Financial assets – FVOCI	134,694	107,168
Other operating assets	649	1,875
Financial liabilities – AC	514,490	2,606,824
Other operating liabilities	-36,615	8,517
Payments for taxes, interest and dividends	**99,252**	**58,344**
Income taxes refunded/paid	-3,615	-6,582
Interest received	260,526	228,384
Interest paid	-158,296	-163,468
Dividends on FVOCI investments received	17	10
Dividends received from associates	619	-
CASH FLOWS FROM OPERATING ACTIVITIES	388,134	2,102,561
Proceeds from sale of/redemption of:	**158**	**243**
Equity investments	75	1
Property, plant and equipment, intangible assets and investment property	82	242
Purchase of:	**-4,074**	**-1,135**
Equity investments	-32	-
Property, plant and equipment, intangible assets and investment property	-4,042	-1,135
Proceeds from disposal of subsidiaries	**1,500**	**-**
CASH FLOWS FROM INVESTING ACTIVITIES	-2,416	-891
Dividends paid	**-3,800**	**-3,500**
Repayment of lease liabilities	**-456**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES	-4,256	-3,500
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,845,405	2,333,651

EUR '000	1 Jan. 2021	Cash	Non-cash	30 Jun. 2021
Subordinated liabilities	-	-	-	-
Liabilities arising from financing activities	-	-	-	-

EUR '000	1 Jan. 2020	Cash	Non-cash	31 Dec. 2020
Subordinated liabilities	1,453	-	-1,453	-
Liabilities arising from financing activities	1,453	-	-1,453	-

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 ACCORDING TO IFRS

1 GENERAL INFORMATION

1.1 Significant accounting policies

The condensed consolidated financial statements of HYPO NOE Landesbank für Niederösterreich und Wien AG (hereinafter "the HYPO NOE Group") as at 30 June 2021 were drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), as well as the interpretations thereof issued by the Standing Interpretations Committee (SIC) and the IFRS Interpretations Committee (IFRS IC).

These consolidated financial statements have been prepared in accordance with the IFRS/IAS standards and interpretations thereof adopted and published by the European Union, and applicable to the business activities of the HYPO NOE Group.

The condensed consolidated financial statements are subject to IAS 34 *Interim Financial Reporting*. Essentially the same accounting policies were applied as those applied as at 31 December 2020 while taking account of new standards which are mandatory for financial years beginning on or after 1 January 2021.

The 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 2020. The interim consolidated financial statements were neither subjected to a full audit nor were they reviewed by independent auditors.

1.2 Estimation uncertainties and judgements

These are indicated below as Estimation uncertainties and judgements.

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

- Measurement of financial instruments, associates and joint ventures
- Assessment of the ECB's monetary policy measures (use of TLTRO instruments) and of the attainment of lending targets
- Determination of impairment losses and gains on financial assets (detailed information on the impact of the Covid-19 pandemic can be found in Note 4.4 Credit risk and risk provisions)
- The definition applied of the term "default"
- Performance of SPPI tests
- Establishment of the principles governing the transfer of financial instruments (stage transfers)
- Assessment of inclusion in the scope of consolidation
- Recognition of deferred tax assets attributable to tax loss carryforwards
- Determination of fair value
- Determination of the useful lives of intangible assets, right-of-use assets, and property, plant and equipment
- Assessment of the effect of first-time application of new IFRS
- Recognition and measurement of provisions

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

1.3 New and amended standards

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

*Mandatory application not yet endorsed by the EU

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

The euro overnight index average (EONIA) benchmark rate, among others, no longer meets the requirements of the EU Benchmarks Regulation, and it is therefore being replaced by the new euro short-term rate (€STR). Following the changeover of interest on cash collaterals posted for euro-denominated interest rate swaps to the €STR by the LCH and EUREX clearing houses last year, bilateral contracts and credit support annexes (CSAs) at the HYPO NOE Group are also being progressively adapted up to the end of 2021. The resulting measurement differences will be offset by compensation payments, which will not have any material effects on the HYPO NOE Group's consolidated financial statements.

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

2 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

Segmental analysis as at 30 Jun. 2021, EUR '000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Group
Net interest income	16,498	19,570	20,256	17,408	-3,805	69,927
Net fee and commission income	1,454	659	7,680	-30	-13	9,750
Net gains or losses on financial assets and liabilities	-56	-269	-72	2,752	1,745	4,100
Net other operating income	1,960	4,174	1,038	-45	-5,360	1,767
Net gains on investments accounted for using the equity method	1,507	-333	-	470	-	1,644
Administrative expenses	-10,041	-10,804	-23,212	-7,266	-5,653	-56,976
Impairment losses or gains on financial assets - IFRS 9, ECL	770	-1,946	4,963	-38	11	3,760
Profit or loss before tax	**12,091**	**11,051**	**10,654**	**13,251**	**-13,075**	**33,972**
Income tax expense						-8,082
Profit for the period						**25,890**
Segment assets	**7,100,230**	**2,797,569**	**2,205,925**	**4,438,301**	**145,550**	**16,687,574**
Segment liabilities	**1,822,965**	**385,466**	**2,419,652**	**11,220,272**	**839,219**	**16,687,574**

Segmental analysis as at 30 June 2020, EUR '000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Group
Net interest income	16,397	16,957	20,651	13,605	-4,046	63,565
Net fee and commission income	1,418	690	6,716	194	3	9,021
Net gains or losses on financial assets and liabilities	-1,122	-457	-1,841	442	2,341	-636
Net other operating income	2,257	6,892	969	-265	-4,010	5,843
Net gains on investments accounted for using the equity method	527	330	-	392	-	1,249
Administrative expenses	-11,016	-11,898	-22,445	-7,117	-7,180	-59,655
Impairment losses or gains on financial assets - IFRS 9, ECL	-86	-2,850	-2,037	-127	28	-5,073
Profit or loss before tax	**8,376**	**9,663**	**2,012**	**7,125**	**-12,865**	**14,312**
Income tax						-3,266
Profit for the period						**11,046**
Segment assets	**7,433,452**	**2,465,336**	**2,014,485**	**5,215,173**	**144,679**	**17,273,126**
Segment liabilities	**2,256,341**	**311,682**	**2,216,003**	**11,704,637**	**784,463**	**17,273,126**

2.1 Public Sector segment

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

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

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

The Public Sector segment has a business relationship with a major customer in the meaning of paragraph 34 IFRS 8. The client in question is a public authority, and the services provided to it mainly take the form of leases, as well as lending and deposit taking. Dealings with 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 9.87m during the reporting period. This figure comprises EUR 3.04m from direct business relationships with the customer, EUR 1.55m from direct business relationships with allocable group members, and EUR 5.28m from indirect business relationships in the form of lease refinancing.

2.2 Real Estate segment

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

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

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

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

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

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

2.3 Retail and Corporate Customers segment

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

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

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

2.4 Treasury & ALM segment

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

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

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

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

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

2.5 Corporate Center

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

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

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

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

- Cost of cash collaterals for customer derivatives in the absence of collateral agreements:
  Where customer derivatives are not secured by collateral agreements, the HYPO NOE Group does not receive collateral from customers but must post cash collaterals with the hedging partners. Liquidity costs are incurred when refinancing these collaterals. Treasury & ALM is responsible for managing all collateral positions, while the related refinancing costs are reported under Corporate Center; collateral requirements occasioned by future customer derivatives are met by means of pricing or collateral agreements with customers, and are hence not included in this asymmetrical allocation.

- Adverse effects of structural contributions on consumer loans arising from negative variable interest indicators
- Changes in a legal-risk provision for potentially contentious negative interest collected on corporate loans

"Net interest income" in the Corporate Center segment in the first half of 2021 includes EUR -1.3m (30 Jun. 2020: EUR -1.9m) in asymmetrical allocations arising from collateral expenses, as well as EUR -1.9m (30 Jun. 2020: EUR -1.6m) in unfavourable structural contribution effects arising from negative variable interest rate indicators on consumer loans.

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

"Net gains on financial assets and liabilities" were EUR 1.7m in the reporting period (30 Jun. 2020: EUR 2.3m). They related to measurement of the HETA contingent additional purchase price. Details are given in notes 4.1.2 Net gains or losses on financial assets and liabilities, and 4.6 Fair value disclosures.

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

Allocations to a provision for negative interest on corporate loans were reported under "Net other operating income" in the first half of 2020 and the first half of 2021. Details are given in Note 6.2 Provisions. This item in the Corporate Center segment also reflects compensation for the services of the Retail and Corporate Customers segment in connection with internal customers (30 Jun. 2021: EUR -0.6m; 30 Jun. 2020: EUR -0.5m). "Administrative expenses" allocated to the Corporate Center intra-year accruals in respect of the contribution to the deposit insurance and resolution fund amounting to EUR 4.6m (30 Jun. 2020: EUR 3.7m). In the first half of 2020, the annual financial stability contribution, amounting to EUR 3.1m, was also recognised in "Administrative expenses" under the Corporate Center. From 2021 this annual contribution no longer needs to be paid. This corresponds to 50% of the overall cost burden. The remaining 50% is distributed among the operating segments.

Additional disclosures concerning business segment performance are found in Note 3 Financial review.

3 EQUITY AND CONSOLIDATED OWN FUNDS

3.1 Equity

EUR '000	30 Jun. 2021	31 Dec. 2020
Share capital	51,981	51,981
Capital reserves	191,824	191,824
Appropriated reserve	94,624	94,624
Unappropriated reserve	97,200	97,200
Other reserves	3,149	5,020
Retained earnings	474,664	452,557
Equity attributable to owners of the parent	**721,618**	**701,382**
Non-controlling interests	8,338	8,980
Total	729,956	710,362

3.2 Non-controlling interests

EUR '000	H1 2021	H1 2020
FORIS Grundstückvermietungs Gesellschaft m.b.H.	11	8
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	-44	-105
LITUS Grundstückvermietungs Gesellschaft m.b.H.	12	12
PINUS Grundstückvermietungs Gesellschaft m.b.H.	1	-6
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-15	-10
Adoria Grundstückvermietungs Gesellschaft m.b.H.	3	3
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	-3	-4
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	6	4
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	-5	-10
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	27	38
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	-1	-
Total	-8	-70

3.3 Reconciliation of equity

EUR '000	30 Jun. 2021	31 Dec. 2020
Equity according to IFRS financial statements	729,956	710,362
Divergence in scope of consolidation (accounting vs. regulatory treatment)	-769	-725
Equity according to FINREP template 51	729,187	709,636
Deferred taxes on untaxed reserves	-3,903	-3,903
Prudent valuation (simplified approach)	-1,048	-1,406
Intangible assets	-171	-236
Prudential backstop	-542	-
Ineligible minority interests	-8,338	-8,980
Intra-year change in revaluation surplus, profit and dividend	-25,795	-3,800
Eligible capital	689,390	691,311

3.4 Consolidated own funds and regulatory own funds requirement

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

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

EUR '000	CRR/CRD IV 30 Jun. 2021	CRR/CRD IV 31 Dec. 2020
Share capital	136,546	136,546
Paid-up capital instruments	51,981	51,981
Premiums	84,566	84,566
Reserves, differences and non-controlling interests	554,604	556,407
Retained earnings	444,196	444,260
Other reserves	104,744	104,744
Accumulated comprehensive income	5,665	7,403
Prudential filters: adjustments due to the prudential measurement requirements	-1,048	-1,406
Prudential backstop: insufficient coverage for non-performing exposures	-542	-
Intangible assets	-171	-236
CET1 capital	689,390	691,311
Additional Tier 1 capital	-	-
Tier 1 capital	**689,390**	**691,311**
Deductions due to investments, pursuant to Arts. 36 and 89 CRR	-	-
Eligible Tier 1 capital	**689,390**	**691,311**
Deductions due to investments, pursuant to Arts. 36 and 89 CRR	-	-
Eligible supplementary capital (after deductions)	**-**	**-**
Total eligible capital	**689,390**	**691,311**
Capital requirement	**313,031**	**308,546**
Excess capital	**376,358**	**382,765**
Coverage ratio	220.23%	224.05%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	17.62%	17.92%
Total capital ratio in accordance with Art. 92(2)(c) CRR	17.62%	17.92%
Own funds requirement incl. all buffer requirements	12.62%	12.62%

Taking account of the interim profit and prorating of the contributions to the resolution and deposit insurance fund, which have already been taken in full to profit or loss, the pro forma Tier 1 capital ratio was around 18.3%. Changes in the risk-weighted measurement basis and the resultant own funds requirement are shown below:

EUR '000	CRR/CRD IV 30 Jun. 2021	CRR/CRD IV 31 Dec. 2020
Risk-weighted measurement basis for credit risk	3,587,036	3,494,795
8% minimum own funds requirement	286,963	279,584
Own funds requirement for open currency positions	-	-
Own funds requirement for operational risk	23,119	23,119
Own funds requirement for CVA risk	2,950	5,844
Total own funds requirement	**313,031**	**308,546**

4 FINANCIAL INSTRUMENTS AND CREDIT RISK

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

4.1.1 Net interest income

EUR '000	H1 2021	H1 2020
Interest and similar income measured using the effective interest method	**126,855**	**121,720**
Financial assets - FVOCI	5,989	7,938
Financial assets - AC	106,566	98,727
Current finance lease income	14,299	15,054
Interest and similar income not measured using the effective interest method	**90,124**	**96,533**
Financial assets and liabilities - HFT	38,567	41,166
Financial assets - mandatorily FVTPL	427	1,067
Hedges	49,733	53,090
Other interest and similar income	1,397	1,211
Interest expense	**-147,070**	**-154,698**
Financial assets and liabilities - HFT	-37,865	-39,994
Financial liabilities - AC	-60,489	-65,675
Hedges	-48,714	-49,026
Lease liabilities in accordance with IFRS 16	-2	-2
Dividend income	**17**	**10**
Total	69,926	63,565

4.1.2 Net gains or losses on financial assets and liabilities

EUR '000	H1 2021	H1 2020
Net gains or losses on:	**4,101**	**-668**
Disposal	**300**	**811**
Financial assets - AC	53	333
Financial assets - FVOCI	247	478
Measurement	**3,502**	**-739**
Financial assets and liabilities - AC	-861	-1,831
Net losses due to non-substantial modification	-995	-456
Direct write-offs	177	-1,289
Financial assets - mandatorily FVTPL	2,975	1,356
Financial assets and liabilities - HFT	1,835	337
Financial assets and liabilities - FVO	-447	-600
Hedges	**298**	**-740**
Net gains on hedged underlying transactions (fair value hedges)	-53,152	57,836
Net losses on hedges (fair value hedges)	53,450	-58,577
Net gains arising from the derecognition of financial assets	**-**	**32**
Financial assets - AC	-	32
Total	4,100	-636

EUR '000	H1 2021			
Detailed disclosures: non-substantial modifications	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Net losses due to non-substantial modification of financial assets	-549	-446	-1	**-995**
of which measures in connection with the Covid-19 pandemic	21	-1	-	**20**
Amortised cost before non-substantial modification of financial assets	107,607	26,588	922	**135,117**

EUR '000	H1 2020			
Detailed disclosures: non-substantial modifications	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Net losses due to non-substantial modification of financial assets	-326	-124	-5	**-456**
of which measures in connection with the Covid-19 pandemic	-196	-120	-3	**-318**
Amortised cost before non-substantial modification of financial assets	88,550	21,730	2,601	**112,882**

The gross carrying amount of financial assets measured at amortised cost affected by non-substantial modifications that were transferred to Stage 1 during the period was EUR 1,685thsd as at 30 June 2021 (31 Dec. 2020: EUR 456thsd).

No significant contract modifications were carried out as a result of debt moratoriums that would lead to derecognition and re-recognition of financial assets (H1 2020: EUR 87thsd).

The net measurement gains on "Financial assets – mandatorily FVTPL" chiefly arise from remeasurement of the HETA contingent additional purchase price, as well as from the fair value loan portfolio (reported under "Financial assets – mandatorily FVTPL").

4.2 Financial assets

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

EUR '000	30 Jun. 2021	31 Dec. 2020
Cash and balances at central banks	**1,845,405**	**1,463,942**
Cash on hand	28,731	29,814
Balances at central banks	1,816,673	1,434,129
Financial assets – HFT	**351,102**	**417,189**
Positive fair value of interest rate derivatives	332,863	392,269
Positive fair value of foreign exchange derivatives	18,238	24,919
Financial assets – mandatorily FVTPL	**147,838**	**171,312**
Loans	74,250	99,815
General governments	2,405	2,723
Other financial corporations	1,495	1,465
Non-financial corporations	44,164	66,911
Households	26,186	28,716
Bonds	73,588	71,497
General governments	38,833	37,165
Banks	34,755	34,332
Financial assets – FVOCI	**378,121**	**514,991**
Bonds	376,158	512,834
General governments	304,228	372,562
Banks	57,826	123,861
Other financial corporations	9,110	12,440
Non-financial corporations	4,994	3,971
Equity instruments	1,963	2,156
Other financial corporations	1,553	1,596
Non-financial corporations	410	560
Financial assets – AC	**13,450,484**	**13,230,957**
Loans	12,159,535	12,030,153
General governments	4,082,994	4,075,921
Banks	592,110	716,167
Other financial corporations	316,015	303,839
Non-financial corporations	4,952,221	4,711,374
Households	2,216,195	2,222,851
Bonds	1,290,949	1,200,804
General governments	599,071	591,897
Banks	470,854	393,792
Other financial corporations	171,973	165,276
Non-financial corporations	49,051	49,839
Total	16,172,949	15,798,390

4.2.1 Supplementary information concerning financial assets

Transfer of financial assets

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

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

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

	30 Jun. 2021		31 Dec. 2020	
EUR '000	Transferred assets	Related liabilities	Transferred assets	Related liabilities
Financial assets - FVOCI	**330,250**	**369,936**	**425,100**	**423,639**
Bonds	330,250	369,936	425,100	423,639
Financial assets - AC	**1,574,296**	**1,803,488**	**1,511,596**	**1,576,850**
Bonds	1,010,180	1,154,570	919,258	951,694
Loans	564,116	648,918	592,338	625,157
Total	1,904,545	2,173,425	1,936,696	2,000,489

4.3 Financial liabilities

Estimation uncertainties and judgements

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

Financial liabilities arising from the TLTRO programme are recognised at amortised cost in accordance with paragraph 4.2.1 IFRS 9, under "Financial liabilities – AC", and amounted to EUR 2,017,776thsd as at 30 June 2021 (31 Dec. 2020: EUR 1,841,492thsd). Interest income from these liabilities is reported in Note 4.1.1 Net interest income, as negative interest expense under the item "Interest and similar income measured using the effective interest method". This income amounted to EUR 8,716thsd in the first half of 2021 (H1 2020: EUR 7,508thsd).

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

Special Interest Rate Period 1

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

Special Interest Rate Period 2

On 10 December 2020 the ECB Governing Council resolved that a further performance-based incentive of 50 basis points should be granted for Special Interest Rate Period 2, June 2021 to June 2022, on condition of the attainment of certain lending targets in the reference period from 1 October 2020 to 31 December 2021. This decision was published in the Official Journal of the EU on 29 January 2021 (Decision [EU] 2021/124 of the European Central Bank amending Decision [EU] 2019/1311 on a third series of targeted longer-term refinancing operations [ECB/2021/3]). Attainment of the required lending performance target is monitored monthly on the basis of eligible loans, scheduled repayments and an adequate safety buffer. Since the review of fulfilment of the criteria in the first half of 2021 showed this to be likely, a periodic reassessment of the payment flows was made, taking account of altered market conditions and leading to a change in the effective interest rate, pursuant to paragraph B5.4.5 IFRS 9, from -0.78% to -0.98%. The additional interest effect of the change in the effective interest rate from 29 January 2021 to 30 June 2021 amounts to EUR 1,492thsd. If, contrary to expectations, the HYPO NOE Group does not meet the criteria for more favourable terms for Special Interest Rate Period 2, the variable interest rate for the period starting on 29 January 2021 would be reduced accordingly.

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

EUR '000	30 Jun. 2021	31 Dec. 2020
Financial liabilities – HFT	**323,782**	**388,764**
Negative fair value of interest rate derivatives	307,312	364,457
Negative fair value of foreign exchange derivatives	16,470	24,307
Financial liabilities – FVO	**5,756**	**5,309**
Other financial liabilities	5,756	5,309
Financial liabilities – AC	**14,788,363**	**14,274,540**
Savings deposits	693,678	716,966
Deposits	5,936,833	6,169,085
Banks	2,806,687	2,663,197
General governments	863,035	1,170,664
Other financial corporations	428,487	539,135
Non-financial corporations	693,493	785,846
Households	1,145,132	1,010,242
Bonds in issue	8,157,852	7,388,489
Covered bonds	1,121,822	1,140,874
Municipal bonds	3,910,719	3,517,013
Other bonds	3,125,312	2,730,602
Total	15,117,901	14,668,613

"Financial liabilities – FVO" comprises a liability related to the HETA contingent additional purchase price, which the Group designated as measured at fair value through profit or loss in accordance with paragraph 4.2.2 IFRS 9, so as to avoid measurement and recognition inconsistencies (accounting mismatches) with regard to the financial assets concerned (see "Financial assets – mandatorily FVTPL"). Details can be found in Note 4.6.2 Fair value hierarchy: Level 3 disclosures.

4.3.1 Contingent liabilities

EUR '000	30 Jun. 2021	31 Dec. 2020
Liabilities arising from guarantees and provision of collateral	78,842	128,231

4.4 Credit risk and risk provisions

Credit risk

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

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

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

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

Sustainability risks are currently growing markedly in importance, and are therefore recognised as a separate key risk sub-category. Since the HYPO NOE Group seeks to conduct its business responsibly and sustainably, in order to limit and manage the sustainability risks that arise in loan approval and review processes the Group has defined inclusion and exclusion criteria, as well as environmentally and socially sensitive sectors that call for greater care. The incorporation of sustainability aspects in loan approval, internal capital adequacy assessment process (ICAAP) and credit risk procedures is ongoing.

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

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

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

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

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

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

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

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

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

Risk concentration

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

Name concentration risk

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

Country risk

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

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

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

Current credit risk situation

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

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

The NPL ratio is a key performance measure for banks in connection with financial assets in default. The Group's NPL ratio stood at 0.68% at 30 June 2021 (31 Dec. 2020: 0.78%). No Covid-19 related effects on the NPL ratio are apparent, as there have been few customer defaults due to the crisis to date. NPL coverage is defined as total Stage 3 risk provisions, taking account of collaterals, divided by the sum of the gross carrying amounts of NPLs. Coverage for the Group as at 30 June 2021 was 79.13% (31 Dec. 2020: 75.18%).

Covid-19

The Covid-19 crisis resulted in requests for payment deferrals and bridging loans not covered by a state moratorium. In carrying out these restructuring measures the lending process was not changed, and the separation between back office and front office functions was maintained. The approval process takes place as usual via the core bank system, and defined authorisations to lend must be adhered to.

Independently of the requirements of the subsidising authority, the HYPO NOE Group carries out plausibility checks of the information and accompanying documents provided by the customer, paying attention to financial difficulties, indications of unlikeliness to pay, and compliance with the criteria established by the Business Reorganisation Act. These reviews focus on the following points:

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

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

In connection with the deferral of contractually agreed payment dates due to the state moratorium, a user-friendly online form has been set up in accordance with the law, enabling customers to formally apply for payment deferral. Consumers and microbusinesses are entitled to apply.

Loans extended in connection with the Covid-19 pandemic and secured by the Austrian government amounted to EUR 16.2m (31 Dec. 2020: EUR 17.0m). Due to changes in the guarantee conditions applicable over the course of the pandemic, EUR 14.7m of these assets are reported as secured (31 Dec. 2020: EUR 14.7m). Unsecured Covid-19 bridging loans totalled EUR 0.6m (31 Dec. 2020: EUR 0.8m). In the HYPO NOE Group, guarantees extended close to the inception of a guaranteed financial asset are viewed as integral parts of the contracts concerned.

Investment risk

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

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

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

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

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

Other subtypes of credit risk

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

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

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

The migration risk is the risk of a deterioration in a debtor's creditworthiness, taking the form of an increase in the probability of default and a consequent downgrading of the customer's credit rating. It is countered by providing additional equity cover, using the buffer, as part of the risk-bearing capacity calculation. Regular monitoring of migration risk at portfolio level as part of the calculation of risk-bearing capacity (the impact of unexpected losses on credit risk), and by means of migration matrices (YTD evolution) is an element of the Bank's regular reporting.

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

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

4.4.1 Risk provisions

In principle, when recognising risk provisions the same accounting policies and approaches to estimation uncertainty and judgements were applied as described in the notes to the 2020 annual financial statements. Updates and refinements are described below.

Estimation uncertainties and judgements

Rating models

Measures related to Covid-19

The positive impact of government support measures continued to be seen in the first half of 2021, with the result that no significant increase in the number of defaults was observed. As these support measures will be phased out in subsequent periods, we assume that the creditworthiness of customers in affected sectors will deteriorate. Therefore, the Group continues to apply the sector-dependent systemic downgrading process employed when preparing the 2020 annual financial statements. Exceptions are only made for customers for which the Covid-19 crisis has demonstrably had either no impact or a positive impact.

Measurement parameters

Point in time (PiT) PD curves

The modelling approach and assumptions arrived at as at 31 December 2020 have been largely retained. The current model considers macroindicators as well as a time lag between the movement of the indicators and the expected time of default. Moratoriums and state support measures have further extended the lag between shifts in the indicators and the defaults. This degree of lagging was not included in previous empirical studies. The lengths of these delays are known, and attention was paid to them in the PD forecasts. As a result, the negative macro-parameters for 2020 serve as a forecast of defaults in 2021 as a whole. For 2022 and 2023, the change in the macro-parameters as compared with 31 December 2019 (pre-crisis level) was used in the calculation, rather than the year-on-year change. This removed the positive distortions in the relative evolution of the macroindicators resulting from a comparison with the indicators' low levels during the crisis, so that the high growth rates in the subsequent years of the crisis are not given too much weight in the macroeconomic model. The tables below provide a comparison of the macroeconomic indicators published by the OeNB and those applied in generating the HYPO NOE Group's forecasts as at 30 June 2021 and 31 December 2020.

30 Jun. 2021	OeNB forecasts		
Years	Gross domestic product	Private consumption	Total exports
2020	-6.7	-9.4	-10.9
2021	3.9	4.0	7.1
2022	4.2	5.8	6.4
2023	1.9	1.8	3.4

30 Jun. 2021	HYPO NOE inputs		
Years	Gross domestic product	Private consumption	Total exports
2021	-6.7	-9.4	-10.9
2022	-3.1	-5.8	-4.6
2023	1.0	-0.3	1.5

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

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

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

Rating	1Y PD – master scale	1Y PiT PD – corporate	1Y PiT PD – retail
1A	0.01%	0.03%	The assessment of retail customers' creditworthiness begins at a rating of 2C, so these categories do not apply
1B	0.02%	0.04%	
1C	0.03%	0.05%	
1D	0.04%	0.06%	
1E	0.05%	0.07%	
2A	0.07%	0.09%	
2B	0.11%	0.14%	
2C	0.16%	0.20%	0.29%
2D	0.24%	0.30%	0.41%
2E	0.35%	0.48%	0.62%
3A	0.53%	0.79%	0.91%
3B	0.80%	1.31%	1.34%
3C	1.20%	1.96%	1.94%
3D	1.79%	2.92%	2.83%
3E	2.69%	4.36%	4.13%
4A	4.04%	6.51%	6.00%
4B	6.05%	10.08%	8.72%
4C	9.08%	15.61%	12.64%
4D	13.62%	24.03%	18.72%
4E	20.44%	36.77%	26.31%

Scenarios and sensitivities

Generally speaking, the HYPO NOE Group uses the most probable scenario to measure lifetime expected credit losses (baseline scenario). This baseline scenario considers both the anticipated negative consequences of the coronavirus pandemic and the counterbalancing effects of the various support packages. Internal analyses show that the Group's portfolio contains no significant asymmetries that would lead to a materially different estimate of impairment losses/gains if a number of scenarios were considered. The results of the analysis do not show any material deviations between the probability-weighted average ECL calculated in the three scenarios and the ECL according to the baseline scenario. In addition, the alternative scenarios provide a transparent indication of the uncertainty arising from the use of forecasts and statistical models when estimating PD. The results from the different scenarios as at 30 June 2021 and 31 December 2020 are shown below:

30 Jun. 2021, EUR '000	Optimistic	Baseline	Pessimistic
Risk provisions generated by the fully automated process (Stage 1 and Stage 2)	46,505	49,683	52,883

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

The Covid-19 pandemic has increased the level of uncertainty associated with measuring expected credit losses. To counter this, the HYPO NOE Group has carried out additional sensitivity analyses. These show the effects and sensitivities of qualitative staging for industries significantly affected by the Covid-19 pandemic. In addition, one scenario is presented that depicts the effects of an increase of 25% in all unsecured losses, coupled with a 15% fall in the value of real estate collaterals. The results of this analysis can be found in the table below.

EUR '000	Risk provisions – Stage 1 and 2	Delta to baseline	Description of change in parameters
Sensitivity 1	48,441	-1,242	Baseline scenario without Covid-19 staging for 50% of retail customers
Sensitivity 2	44,093	-5,590	Baseline scenario without qualitative staging for the affected industries, drawn from the Covid-19 downgrade model
Sensitivity 3	51,767	2,084	Baseline scenario with Covid-19 staging increased to 100% of retail customers
Sensitivity 4	70,975	21,291	Baseline scenario with an increase of 25% in the unsecured LGD and reduction of 15% in value of real estate collaterals

4.4.2 Detailed information on risk provisions

Risk provisions by rating class

	Risk provisions					Gross carrying amount/nominal amount				
	30 Jun. 2021				31 Dec. 2020	30 Jun. 2021				31 Dec. 2020
EUR '000	Stage 1	Stage 2	Stage 3	Total	Total	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances at central banks	**-5**	**-33**	**-**	**-37**	**-13**	**1,844,941**	**501**	**-**	**1,845,442**	**1,463,955**
Financial assets - AC	**-10,693**	**-36,149**	**-27,429**	**-74,271**	**-79,068**	**9,761,613**	**3,678,746**	**84,396**	**13,524,755**	**13,310,025**
Loans	-10,537	-26,078	-27,429	-64,045	-68,741	8,587,712	3,551,471	84,396	12,223,579	12,098,894
Rating class 1	-59	-231	-	-290	-300	3,692,400	942,953	-	4,635,353	4,635,934
Rating class 2	-3,975	-4,660	-	-8,635	-7,945	3,630,615	1,317,516	-	4,948,131	4,981,726
Rating class 3	-6,253	-17,845	-	-24,098	-26,120	1,240,390	1,103,973	-	2,344,363	2,112,071
Rating class 4	-250	-3,342	-	-3,592	-5,274	24,308	187,029	-	211,337	273,744
Rating class 5	-	-	-27,429	-27,429	-29,102	-	-	84,396	84,396	95,418
Bonds	-156	-10,071	-	-10,227	-10,327	1,173,901	127,275	-	1,301,176	1,211,131
Rating class 1	-44	-48	-	-92	-92	766,438	44,840	-	811,278	753,743
Rating class 2	-107	-122	-	-228	-200	402,393	30,160	-	432,553	393,710
Rating class 3	-5	-435	-	-440	-502	5,070	12,806	-	17,876	24,210
Rating class 4	-	-9,466	-	-9,466	-9,533	-	39,469	-	39,469	39,469
Financial assets - FVOCI	**-15**	**-2**	**-**	**-17**	**-25**	**372,192**	**3,983**	**-**	**376,174**	**512,859**
Bonds	-15	-2	-	-17	-25	372,192	3,983	-	376,174	512,859
Rating class 1	-6	-	-	-6	-7	289,660	-	-	289,660	370,849
Rating class 2	-9	-2	-	-11	-18	82,532	3,983	-	86,515	142,010
Trade receivables	**-**	**-6**	**-15**	**-21**	**-47**	**526**	**129**	**30**	**685**	**2,036**
Provisions for off-balance-sheet risks	**-872**	**-1,968**	**-34**	**-2,874**	**-2,794**	**1,700,137**	**365,499**	**267**	**2,065,903**	**1,879,940**
Rating class 1	-	-31	-	-31	-33	1,121,969	92,231	-	1,214,199	737,019
Rating class 2	-106	-95	-	-201	-170	284,627	66,842	-	351,469	313,430
Rating class 3	-705	-1,337	-	-2,042	-2,139	288,514	174,890	-	463,405	789,871
Rating class 4	-61	-505	-	-566	-416	5,027	31,536	-	36,563	39,341
Rating class 5	-	-	-34	-34	-36	-	-	267	267	279
Total	-11,585	-38,158	-27,478	-77,221	-81,947	13,679,409	4,048,858	84,693	17,812,960	17,168,816

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

The breakdown of the carrying amounts and risk provisions for the Covid-19 portfolio by rating class as at 30 June 2021 is presented in the table below.

	Risk provisions					Gross carrying amount/nominal value				
	30 Jun. 2021				31 Dec. 2020	30 Jun. 2021				31 Dec. 2020
EUR '000	Stage 1	Stage 2	Stage 3	Total	Total	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets - AC	**1**	**71**	**112**	**184**	**4,083**	**30,022**	**18,386**	**422**	**48,830**	**111,677**
Loans	1	71	112	184	4,083	30,022	18,386	422	48,830	111,677
Rating class 1	-	33	-	33	-	29,590	15,766	-	45,356	18,488
Rating class 2	-	1	-	1	199	-	399	-	399	38,307
Rating class 3	1	2	-	3	1,700	182	579	-	761	25,896
Rating class 4	-	35	-	36	516	250	1,643	-	1,893	20,311
Rating class 5	-	-	112	112	1,667	-	-	422	422	8,675
Provisions for off-balance-sheet risks	-	-	-	-	**6**	**15**	**13**	-	**29**	**434**
Rating class 3	-	-	-	-	-	-	13	-	13	232
Rating class 4	-	-	-	-	5	15	-	-	15	202
Total	1	71	112	184	4,089	30,037	18,400	422	48,859	112,112

Impact of Covid-19 – industry analysis

The tables below show the results of the industry-based analysis of the impact of Covid-19, and in particular the systemic rating downgrades applied to the different rating classes, as well as the carrying amounts, the risk provisions and the proportion of customers assigned to Stage 2 as at 30 June 2021.

EUR '000	Industries very seriously affected by Covid-19			
Rating class	Downgrade, notches	Carrying amount	Risk provision	Stage 2 Interest
Rating class 1	-	39,125	48	100%
Rating class 2	1	2,635	15	100%
Rating class 3	1-2	31,530	952	100%
Rating class 4	3 (to max. 4E)	11,256	290	100%
Total		84,546	1,306	

EUR '000	Industries seriously affected by Covid-19			
Rating class	Downgrade, notches	Carrying amount	Risk provision	Stage 2 Interest
Rating class 1	-	221,672	92	100%
Rating class 2	-	497,016	1,500	100%
Rating class 3	1	263,413	5,692	100%
Rating class 4	2 (to max. 4E)	27,916	693	100%
Total		1,010,017	7,978	

EUR '000	Industries moderately affected by Covid-19			
Rating class	Downgrade, notches	Carrying amount	Risk provision	Stage 2 Interest
Rating class 1	-	709,927	169	100%
Rating class 2	-	144,511	225	100%
Rating class 3	1	120,746	77	100%
Rating class 4	1 (to max. 4E)	48,011	634	100%
Total		1,023,195	1,806	

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

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

EUR '000	Changes in risk provisions, 2021	Impairment losses/gains on financial assets – IFRS 9 ECL	Interest expense	Not recognised through profit or loss	Changes in risk provisions, 2020
Risk provisions at start of reporting period	-81,947				-77,568
Increase due to origination and purchase	-3,366	-3,366	-	-	-9,400
Reduction due to derecognition and substantial modification	1,631	1,631	-	-	2,640
Utilisation of risk provisions	1,277	-	-	1,277	16,876
Allocations and reversals due to changes in credit risk	5,182	5,493	-326	15	-14,457

Stage 1 impairment losses/gains

30 Jun. 2021 EUR '000	1 Jan. 2021	Origination and purchase	Derecognition /utilisation	Change in credit risk	Foreign exchange and other changes	30 Jun. 2021
Cash and balances at central banks	**-4**	**-**	**2**	**-3**	**-**	**-5**
Financial assets – AC	**-10,889**	**-2,341**	**410**	**2,127**	**-**	**-10,693**
Loans	-10,765	-2,296	401	2,123	-	-10,537
General governments	-11	-25	5	20	-	-11
Other financial corporations	-940	-130	1	179	-	-890
Non-financial corporations	-8,580	-1,738	363	1,224	-	-8,731
Households	-1,235	-403	32	700	-	-906
Bonds	-124	-45	9	4	-	-156
Banks	-91	-34	9	5	-2	-113
General governments	-6	-1	-	-	-	-7
Other financial corporations	-25	-8	-	4	2	-27
Non-financial corporations	-2	-3	-	-5	-	-9
Financial assets – FVOCI	**-18**	**-2**	**2**	**3**	**-**	**-15**
Bonds	-18	-2	2	3	-	-15
Banks	-13	-	1	1	-	-10
General governments	-4	-	1	1	-	-3
Other financial corporations	-1	-	-	-	-	-1
Non-financial corporations	-	-2	-	1	-	-1
Provisions for off-balance-sheet risks	**-885**	**-757**	**110**	**661**	**-**	**-872**
Loan commitments and financial guarantee contracts	-885	-757	110	661	-	-872
Total	-11,797	-3,100	524	2,788	-	-11,585

30 Jun. 2020 EUR '000	1 Jan. 2020	Origination and purchase	Derecognition /utilisation	Change in credit risk	Foreign exchange and other changes	30 Jun. 2020
Financial assets – AC	**-9,999**	**-3,146**	**652**	**-1,405**	**1**	**-13,897**
Loans	-9,836	-3,120	651	-1,375	-1	-13,682
General governments	-70	-118	4	-71	-	-254
Other financial corporations	-1,177	-117	-	29	-	-1,265
Non-financial corporations	-7,252	-2,066	612	-1,321	-1	-10,029
Households	-1,338	-818	34	-12	-	-2,134
Bonds	-163	-27	2	-29	2	-215
Banks	-90	-18	-	1	-	-107
General governments	-4	-2	-	-	-1	-6
Other financial corporations	-2	-6	1	-4	4	-7
Non-financial corporations	-67	-1	-	-26	-	-94
Financial assets – FVOCI	**-30**	**-5**	**9**	**-6**	-	**-32**
Bonds	-30	-5	9	-6	-	-32
Banks	-22	-1	8	-3	-1	-19
General governments	-3	-	1	-	-	-3
Other financial corporations	-1	-	-	-	1	-
Non-financial corporations	-3	-4	-	-3	-	-10
Provisions for off-balance-sheet risks	**-1,076**	**-506**	**110**	**-49**	-	**-1,521**
Loan commitments and financial guarantee contracts	-1,076	-506	110	-49	-	-1,521
Total	**-11,105**	**-3,657**	**771**	**-1,459**	**1**	**-15,449**

Stage 2 impairment losses/gains

30 Jun. 2021 EUR '000	1 Jan. 2021	Origination and purchase	Derecognition /utilisation	Change in credit risk	Foreign exchange and other changes	30 Jun. 2021
Cash and balances at central banks	**-9**	**-**	**-**	**-24**	**-**	**-33**
Financial assets – AC	**-39,077**	**-60**	**437**	**2,551**	**-**	**-36,149**
Loans	-28,874	-60	432	2,424	-	-26,078
General governments	-938	-	62	93	-	-784
Other financial corporations	-182	-	1	6	-	-175
Non-financial corporations	-17,989	-53	162	18	-	-17,862
Households	-9,764	-7	208	2,306	-	-7,257
Bonds	-10,203	-	5	127	-	-10,071
General governments	-3	-	-	-	-	-2
Other financial corporations	-9,554	-	-	109	-41	-9,485
Non-financial corporations	-647	-	5	17	41	-584
Financial assets – FVOCI	**-7**	**-**	**-**	**5**	**-**	**-2**
Bonds	-7	-	-	5	-	-2
Banks	-	-	-	-	-	-
Non-financial corporations	-7	-	-	5	-	-2
Trade receivables	**-17**	**-**	**-**	**11**	**-**	**-6**
Provisions for off-balance-sheet risks	**-1,873**	**-22**	**499**	**-572**	**-**	**-1,968**
Loan commitments and financial guarantee contracts	-1,873	-22	499	-572	-	-1,968
Total	**-40,982**	**-82**	**936**	**1,970**	**-**	**-38,158**

30 Jun. 2020 EUR '000	1 Jan. 2020					30 Jun. 2020
Financial assets – AC	**-22,302**	**-1,433**	**203**	**744**	**-2**	**-22,790**
Loans	-12,650	-22	203	-790	-	-13,259
General governments	-1,014	-	-	-16	-	-1,030
Other financial corporations	-30	-	5	3	-	-21
Non-financial corporations	-6,132	-9	37	-979	-	-7,083
Households	-5,474	-13	161	201	-	-5,125
Bonds	-9,652	-1,411	-	1,535	-2	-9,531
General governments	-	-998	-	998	-	-
Other financial corporations	-9,616	-276	-	487	-2	-9,407
Non-financial corporations	-36	-138	-	50	-	-124
Financial assets – FVOCI	**-4**	**-**	**-**	**2**	**-**	**-2**
Bonds	-4	-	-	2	-	-2
Banks	-4	-	-	2	-	-2
Non-financial corporations	-	-	-	-	-	-
Provisions for off-balance-sheet risks	**-268**	**-2**	**12**	**34**	**-**	**-224**
Loan commitments and financial guarantee contracts	-268	-2	12	34	-	-224
Total	**-22,574**	**-1,435**	**215**	**780**	**-2**	**-23,016**

Stage 3 impairment losses/gains

30 Jun. 2021 EUR '000	1 Jan. 2021	Origination and purchase	Derecognition /utilisation	Change in credit risk	Foreign exchange and other changes	30 Jun. 2021
Financial assets – AC	**-29,102**	**-184**	**1,446**	**411**	**-**	**-27,429**
Loans	-29,102	-184	1,446	411	-	-27,429
General governments	-3,945	-	-	201	-	-3,744
Other financial corporations	-2,995	-	-	-1,585	-	-4,579
Non-financial corporations	-13,980	-	796	1,456	-	-11,728
Households	-8,183	-184	650	339	-	-7,378
Trade receivables	**-30**	**-**	**15**	**-**	**-**	**-15**
Provisions for off-balance-sheet risks	**-36**	**-**	**5**	**-3**	**-**	**-35**
Loan commitments and financial guarantee contracts	-36	-	5	-3	-	-34
Total	**-29,168**	**-184**	**1,466**	**408**	**-**	**-27,478**

30 Jun. 2020 EUR '000	1 Jan. 2020					30 Jun. 2020
Financial assets – AC	**-42,477**	**-5,023**	**11,058**	**2,786**	**10**	**-33,646**
Loans	-42,477	-5,023	11,058	2,786	10	-33,646
General governments	-4,322	-	-	195	-	-4,127
Other financial corporations	-	-	-	-	-	-
Non-financial corporations	-26,141	-4,743	7,350	2,746	10	-20,778
Households	-12,013	-280	3,709	-155	-	-8,740
Provisions for off-balance-sheet risks	**-1,390**	**-1**	**16**	**1,232**	**-**	**-143**
Loan commitments and financial guarantee contracts	-1,390	-1	16	1,232	-	-143
Total	**-43,866**	**-5,024**	**11,075**	**4,018**	**10**	**-33,788**

4.5 Derivatives and hedge accounting

4.5.1 Carrying amounts and nominal values of derivatives

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

The following table gives an overview of the nominal values and carrying amounts of derivatives carried as at 30 June 2021.

	30 Jun. 2021			31 Dec. 2020		
	Carrying amount		Nominal value	Carrying amount		Nominal value
EUR '000	Assets	Liabilities		Assets	Liabilities	
Financial assets and liabilities – HFT	**351,102**	**323,782**	**4,260,748**	**417,189**	**388,764**	**4,413,627**
Interest rate derivatives	332,863	307,312	3,536,957	392,269	364,457	3,686,255
Foreign exchange derivatives	18,238	16,470	723,791	24,919	24,307	727,372
Positive and negative fair value of hedges (hedge accounting)	**344,798**	**671,779**	**10,656,496**	**445,780**	**829,132**	**10,152,852**
Interest rate derivatives	340,502	654,421	10,447,447	439,632	809,316	9,945,667
Foreign exchange derivatives	4,296	17,358	209,049	6,148	19,815	207,185

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

	30 Jun. 2021					
	Financial assets/liabilities (gross)	Reported amounts offset (gross) (-)	Reported financial assets (net)	Effect of master netting agreements (-)	Collateral in the form of financial instruments (-)	Net amount
				Not offset		
EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i)	(d)(ii)	(e)=(c)+(d)
Assets						
Financial assets - HFT	351,102	-	351,102	-17,140	-12,413	321,548
Positive fair value of hedges (hedge accounting)	344,798	-	344,798	-238,537	-30,305	75,956
Total assets	695,900	-	695,900	-255,677	-42,718	397,504
Liabilities						
Financial liabilities - HFT	323,782	-	323,782	-17,140	-226,627	80,014
Financial liabilities - FVO	5,756	-	5,756	-	-	5,756
Negative fair value of hedges (hedge accounting)	671,779	-	671,779	-238,537	-391,739	41,503
Total liabilities	1,001,317	-	1,001,317	-255,677	-618,366	127,273

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

4.5.2 Detailed information on hedge accounting

EUR '000	H1 2021 Net gains or losses on basis adjustments to underlyings	H1 2021 Net gains or losses on measurement of hedges	H1 2021 Ineffectiveness	H1 2020 Net gains or losses on basis adjustments to underlyings	H1 2020 Net gains or losses on measurement of hedges	H1 2020 Ineffectiveness
Assets						
Financial assets - FVOCI	**-10,740**	**10,843**	**102**	**1,196**	**-1,100**	**96**
Bonds	-10,740	10,843	102	1,196	-1,100	96
Financial assets - AC	**-139,806**	**141,585**	**1,778**	**86,643**	**-86,857**	**-214**
Loans	-125,035	126,348	1,312	77,344	-77,413	-69
Bonds	-14,771	15,237	466	9,299	-9,444	-144
Investment property	**-115**	**116**	**1**	**103**	**-117**	**-13**
Liabilities						
Financial liabilities - AC	**97,509**	**-99,093**	**-1,584**	**-30,106**	**29,497**	**-610**
Deposits	421	-437	-15	10	-150	-140
Bonds in issue	97,088	-98,656	-1,568	-30,116	29,647	-469
Total	**-53,152**	**53,450**	**298**	**57,836**	**-58,577**	**-740**

Positive fair value of hedges (hedge accounting)

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

EUR '000	30 Jun. 2021	31 Dec. 2020
Assets	**11,587**	**3,138**
Financial assets - FVOCI	6	-
Financial assets - AC	11,582	3,138
Liabilities	**333,211**	**442,642**
Financial liabilities - AC	333,211	442,642
Total	**344,798**	**445,780**

Negative fair value of hedges (hedge accounting)

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

EUR '000	30 Jun. 2021	31 Dec. 2020
Assets	**652,161**	**809,109**
Financial assets - FVOCI	50,046	68,707
Financial assets - AC	601,885	740,056
Investment property	229	346
Liabilities	**19,618**	**20,023**
Financial liabilities - AC	19,618	20,023
Total	**671,779**	**829,132**

4.6 Fair value disclosures

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

Significant accounting policies

On 20 May 2021 HETA Asset Resolution published an updated wind-down plan. This is based on the assumption of a slightly higher recovery rate of 88.59% as compared to the last plan (87.86%). Asset wind-down is to be completed in 2021, meaning that after the issue of an administrative ruling by the FMA, it will be possible to release HETA from the Recovery and Resolution of Banks Act regime and open liquidation proceedings under the Austrian Companies Act. It is assumed that it will be possible to overcome existing obstacles to resolution by the end of 2030. This represents the third extension, after deadline postponements in 2019 (until the end of 2023) and 2020 (until the end of 2025). Thanks to the progress made with asset wind-down the associated risk has been further reduced. However, the timing of the payment of the HETA debtor warrant remains unclear. The press release lacks specific information on the dates of disbursement of the warrant and any interim distributions.

Due to the greater uncertainty regarding the timing of the payment as compared to the valuation as at 31 December 2020, the waiting period was extended to 2030 in line with the underlying scenarios, and equal weighting was assigned to the scenarios.

4.6.1 Fair value hierarchy

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

			Fair value measurement		
30 Jun. 2021, EUR '000	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	1,845,405	1,845,415	1,816,673	28,742	-
Financial assets - HFT	351,102	351,102	-	60,055	291,046
Financial assets - mandatorily FVTPL	147,838	147,838	-	45,366	102,472
Financial assets - FVOCI	378,121	378,121	374,123	2,035	1,963
Financial assets - AC	13,450,484	13,798,183	1,070,729	144,205	12,583,249
Positive fair value of hedges (hedge accounting)	344,798	344,798	-	344,798	-
Total assets	**16,517,747**				
Liabilities					
Financial liabilities - HFT	323,782	323,782	-	323,782	-
Financial liabilities - FVO	5,756	5,756	-	-	5,756
Financial liabilities - AC	14,788,363	14,889,485	3,176,046	6,781,848	4,931,592
Negative fair value of hedges (hedge accounting)	671,779	671,779	-	671,779	-
Total liabilities	**15,789,680**				

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

No financial assets have been transferred from Level 1 to Level 2 in 2021. No customer derivatives were transferred from Level 2 to Level 3.

4.6.2 Fair value hierarchy: Level 3 disclosures

EUR '000	1 Jan. 2021	Gains/losses Recog-nised in profit or loss	Not recog-nised in profit or loss	Pur-chases	Sales	Transfers to/from Level 3	30 Jun. 2021	Unrealised gains or losses recognised in profit or loss as at 30 Jun. 2021
Assets								
Financial assets - HFT	341,731	-50,684	-	-	-	-	291,046	-50,079
Financial assets - mandatorily FVTPL	125,845	2,629	-	702	-26,704	-	102,472	2,192
Financial assets - FVOCI	2,156	-	-152	-	-41	-	1,963	-
Total assets	**469,732**	**-48,055**	**-152**	**702**	**-26,744**	**-**	**395,482**	**-47,887**
Liabilities								
Financial liabilities - FVO	5,309	447	-	-	-	-	5,756	-
Total equity and liabilities	**5,309**	**447**	**-**	**-**	**-**	**-**	**5,756**	**-**

The main gains or losses on existing Level 3 assets are shown in Note 4.1.2 Net gains or losses on financial assets and liabilities.

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

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

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

30 Jun. 2021, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets - HFT	281,966	469	Hybrid Hull-White model	Global CDS spreads
Financial assets - mandatorily FVTPL (excl. HETA)	73,280	2,203	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets - FVOCI	1,963	N/A	Adjusted net asset value (NAV) model; DCF model	Adjusted equity (for adjusted NAV model); WACC (for DCF model)
Total	**357,209**	**2,672**		

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

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

EUR '000	Change in fair value: 30 Jun. 2021	Change in fair value: 31 Dec. 2020
10% increase in adjusted equity	190	209
10% decrease in adjusted equity	-190	-209
50 bp increase in WACC	-1	-1
50 bp decrease in WACC	1	1

5 ADDITIONAL NOTES TO THE STATEMENT OF PROFIT OR LOSS

5.1 Net fee and commission income

H1 2021, EUR '000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Total
Fee and commission income	**1,527**	**688**	**8,790**	**250**	**-13**	**11,242**
Securities and custody account business	142	4	3,357	139	2	3,644
Payment transactions	305	400	2,405	54	-7	3,158
Foreign exchange, foreign notes and coins, and precious metals	21	13	238	5	-13	263
Other services	1,124	-	2,207	52	-6	3,377
Other fee and commission income	-66	272	583	-	10	799
Fee and commission expense	**-73**	**-29**	**-1,109**	**-280**	**-**	**-1,491**
Securities and custody account business	-36	-1	-663	-118	-	-818
Payment transactions	-11	-14	-444	-162	-	-631
Other services	-	-	-3	-	-	-3
Other fee and commission expenses	-26	-14	1	-	-	-40
Total	1,454	659	7,680	-30	-13	9,750

H1 2020, EUR '000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Total
Fee and commission income	**1,459**	**702**	**7,936**	**545**	**4**	**10,647**
Securities and custody account business	77	3	2,809	447	3	3,339
Payment transactions	307	354	2,377	41	-1	3,079
Foreign exchange, foreign notes and coins, and precious metals	5	1	107	1	-	114
Other services	1,148	-	2,045	52	4	3,248
Other fee and commission income	-77	343	598	4	-2	866
Fee and commission expense	**-41**	**-13**	**-1,220**	**-351**	**-2**	**-1,626**
Securities and custody account business	-6	-1	-624	-161	-1	-792
Payment transactions	-6	-12	-579	-190	-5	-792
Other services	-	-	-15	-	-	-15
Other fee and commission expenses	-29	-1	-2	-	4	-28
Total	1,418	690	6,716	194	3	9,021

5.2 Net other operating income

EUR '000	H1 2021	H1 2020
Other income	**10,834**	**16,225**
Gains on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	83	185
Gains on the reversal of provisions	104	515
Gains on deconsolidation	964	-
Gains on investment property	1,310	1,557
Other rental income	177	192
Income from real estate services and property development	5,880	9,021
Early repayments	1,408	4,064
Sundry other income	909	691
Other expenses	**-9,066**	**-10,382**
Losses on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	-	-181
Depreciation and impairment of inventories	-	-185
Expenses arising from the recognition of provisions	-4,503	-2,886
Losses on foreign currency translation	-1,193	-1,186
Losses on investment property	-982	-993
Expenses arising from real estate services and property development	-2,214	-4,622
Sundry other expenses	-174	-330
Total	1,767	5,843

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

Gains on deconsolidation

EUR '000	H1 2021	H1 2020
Cash and balances at central banks	79	-
Financial assets – AC	107	-
Intangible assets	40	-
Property, plant and equipment	829	-
Deferred tax assets	36	-
Other assets	2,930	-
Total assets	**4,021**	**-**
Provisions	799	-
Current tax liabilities	77	-
Other liabilities	2,600	-
Total liabilities	**3,477**	**-**
Proceeds of disposal	1,500	-
- Assets disposed of	-4,021	-
+ Liabilities disposed of	3,477	-
Net gains on disposal of consolidated subsidiaries	**956**	**-**
FVOCI reserve	8	-
Net gains on disposal of consolidated subsidiaries through profit or loss	**964**	**-**

EUR '000	H1 2021	H1 2020
Consideration received in cash and cash equivalents	1,500	-
Cash proceeds from the disposal of subsidiaries	**1,500**	**-**
Amount outstanding from the corporate transaction	-	-

As at 31 May 2021 70 persons (31 Dec. 2020: 86 persons) were employed at the deconsolidated company. For further details see Note 9 Group Structure and Related Party Relationships.

5.3 Administrative expenses

5.3.1 Analysis of administrative expenses

Analysis of administrative expenses

EUR '000	H1 2021	H1 2020
Staff costs	**-30,264**	**-28,990**
Wages and salaries	-23,966	-22,791
Pensions and other employee benefit expenses	-6,298	-6,198
Other administrative expenses	**-24,507**	**-28,319**
Premises	-1,497	-1,593
Office and communication expenses	-635	-642
IT expenses	-5,572	-5,529
Legal and consultancy costs	-1,101	-1,070
Auditors: annual audit	-252	-224
Auditors: other auditing services	-	-6
Auditors: tax consultancy services	-50	-34
Auditors: other services	-	-4
Advertising and entertainment expenses	-1,953	-1,949
Other administrative expenses	-13,748	-17,490
Financial stability contribution (bank tax)	-1,478	-7,366
Deposit insurance fund and resolution fund	-9,274	-7,480
Cost of compliance with company law	-359	-352
Training costs	-340	-268
Vehicle and fleet expenses	-227	-269
Insurance	-249	-220
Cost of information procurement and payment transactions	-441	-353
Depreciation, amortisation and impairment	**-2,205**	**-2,347**
Intangible assets	-123	-197
Buildings used by Group companies	-775	-767
Equipment, fixtures and furnishings (incl. low value assets)	-1,055	-1,075
Right-of-use assets (IFRS 16)	-253	-307
Total	**-56,976**	**-59,655**

	H1 2021	H1 2020
Average number of employees (incl. staff on parental leave)	686	737

6 ADDITIONAL NOTES TO THE STATEMENT OF FINANCIAL POSITION

6.1 Investment property

EUR '000	H1 2021	H1 2020
Other income from investment property	**1,310**	**1,557**
Rental income	1,072	1,295
Other income	237	262
Other expenses arising from investment property	**-982**	**-993**
Depreciation	-793	-828
Expenses arising from let investment property	-187	-164
Total	327	564

EUR '000	30 Jun. 2021	31 Dec. 2020
Investment property	34,491	36,693

The carrying amount of land as at 30 June 2021 was EUR 12,985thsd (31 Dec. 2020: EUR 12,985thsd).

6.2 Provisions

Estimation uncertainties and judgements

Other provisions

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

Measurement is based on estimates by experts, on the Bank's own experience, and on discounted cash flow methods. The carrying amounts reflect best estimates of the expenditure (outflow of resources) required to settle the obligations. Measurement was on the basis of scenarios reflecting assumptions as to an average settlement percentage and the expected outflow of resources in the absence of precedents. Due to the fact that, under paragraph 46 IAS 37, the payment burden would subsequently be lower owing to the interest effect, the discount rate applied in the scenarios was given a floor of 0% pursuant to paragraph 45 IAS 37. As regards the sensitivity of the provision, a notional increase in the discount rate of 0.5% would mean a reduction in the provision of EUR 414thsd.

As at 30 June 2021 the provision for negative interest rates in connection with corporate loan agreements, carried under "Other provisions", amounted to EUR 37,999thsd (31 Dec. 2020: EUR 34,068thsd). As this provision relates to a legal risk, the recognition of allocations to it forms part of other operating expense as well as any reversals of other operating income.

EUR '000	30 Jun. 2021	31 Dec. 2020
Employee benefit provisions	**30,998**	**31,803**
Provisions for pensions	18,687	19,262
Provisions for termination benefits	9,549	9,822
Provisions for jubilee benefits	2,762	2,719
Credit provisions	**2,874**	**2,794**
Other provisions	**38,429**	**34,770**
Total	72,302	69,367

6.3 Other assets and liabilities

Other assets

EUR '000	30 Jun. 2021	31 Dec. 2020
Accruals and deferrals, and contract assets as defined by IFRS 15	6,371	9,076
VAT and other tax credits (other than income tax)	3,076	498
Trade receivables	665	1,989
Offset receivables (public loan management)	1,422	103
Offset receivables (other)	2,049	1,150
Non-consolidated subsidiaries	661	808
Sundry other receivables	122	3,769
Total	14,365	17,394

Other liabilities

EUR '000	30 Jun. 2021	31 Dec. 2020
Accruals and deferrals, and contract liabilities as defined by IFRS 15	11,815	25,357
VAT and other tax liabilities (other than income tax)	4,742	7,174
Trade payables	25,705	30,694
Offset liabilities (public loan management)	2,094	2,870
Other offset liabilities	3,745	29,684
Employee liabilities	7,395	5,508
Lease liabilities in accordance with IFRS 16	1,420	1,824
Sundry other liabilities	1,935	3,126
Total	58,852	106,237

7 TAXES

7.1 Income tax

EUR '000	H1 2021	H1 2020
Current income tax	-7,652	-5,244
Deferred income tax	-431	1,979
Total	-8,082	-3,266

7.2 Tax assets

EUR '000	30 Jun. 2021	31 Dec. 2020
Current tax assets	23,178	21,163
Deferred tax assets	362	408
Total	23,539	21,572

7.3 Tax liabilities

EUR '000	30 Jun. 2021	31 Dec. 2020
Current tax liabilities	14,142	10,052
Deferred tax liabilities	22,643	22,853
Total	36,785	32,905

8 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 derived from the Group's strategic objectives are developed with an eye to strategic risk considerations, and with a strong focus on risk-bearing capacity. The Bank attaches particular importance to assessment of risks in the light of the risk-reward ratio. Risks are not ends in themselves but are assumed in the interests of value creation and hence improved risk-bearing capacity, as well as adequate returns on risk capital. The refinement of instruments and processes aimed at maintaining an adequate risk-reward ratio is seen as an integral component of the Group's long-term business development strategy.

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

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

Risk management system

Achieving business success necessarily involves taking risks. The HYPO NOE Group practises active risk transformation and risks are consciously incurred in connection with it. The Group's risk management objectives are to identify, measure, actively manage and monitor all risks arising from banking operations (credit, market, liquidity, operational, reputational and other risks).

The Group's organisational structure provides for a clear separation of front and back office functions (four-eye principle) at every level up to and including the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast an additional, independent vote that confers final approval. The internal division of responsibilities requires the unanimous approval of the front and back office functions for all business decisions that would alter the risk profile. There are also rules for the ultimate approval of exposures requiring resolutions of the Group's Supervisory Board.

In principle, all risks throughout the HYPO NOE Group are subject to a Group-wide, uniform limit system, which is constantly monitored. A Group-wide risk reporting system ensures timely, regular and comprehensive reporting of all risks. In addition to the quarterly risk management report, which provides an aggregated summary of all identified material capital risks and the available capital coverage, and the monthly analysis of insolvency risk, the Management and Supervisory Boards receive separate, regular risk reports for each risk category. These provide comprehensive information on current risk-related developments.

The disclosures required by Part 8 of the CRR are made on a consolidated basis for the HYPO NOE Group, in a separate document posted on the corporate website (https://www.hyponoe.at/en/home).

The rules for introducing new areas of business or new products, and for entering new markets, call for an appropriate prior analysis of the relevant business risks. Without exception, transactions that entail risks are only permitted if they are explicitly regulated and authorised by the Group's risk documentation. In principle, the Group restricts its exposures to areas where it has the necessary expertise to judge and manage the specific risks involved. Where the risk situation is unclear, or where there are methodological uncertainties, the principle of prudence is given precedence.

The HYPO NOE Group identifies, quantifies, monitors and manages risks in accordance with the applicable statutory and commercial requirements. In spite of the risk management methods and internal control processes in place, the Group may still be exposed to unknown and unexpected risks. Neither can the risk management techniques and strategies applied completely rule out the future occurrence of risks.

Aggregate risk management and risk-bearing capacity (ICAAP)

The identification, quantification and oversight of total Bank risk at portfolio level is the responsibility of the Strategic Risk Management Department, and encompasses the identification, measurement, aggregation and analysis of all the risks assumed, assessment of the adequacy of economic capital in relation to the risk profile, and the use and ongoing refinement of appropriate risk management systems.

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

1. The economic capital management control loop ("gone concern") provides creditor protection against the dangers of liquidation. Risks are measured at a high confidence level (99.9% with a one-year holding period), and compared with the risk coverage capital available in the event of liquidation.

2. The going concern management control loop is designed to ensure that the Bank survives as a going concern. Here, risks are measured at a lower confidence level (95% with a one-year holding period), and compared with the coverage capital realisable without endangering survival.

As at 30 June 2021 the Group was utilising 69.8% of its risk-bearing capacity – a marginally higher rate than at 30 June 2020 (69.7%). The presentation of risk and the risk coverage capital as at 30 June 2020 was adjusted ex post in the interests of comparability with the current data. Since 31 December 2020 the risk buffer has been calculated on the basis of quantified risks rather than risk coverage capital, and presented as a separate risk category rather than a deduction from risk-bearing capacity.

Recovery plan

Under the *Bundesgesetz über die Sanierung und Abwicklung von Banken* (Federal Act on the Recovery and Resolution of Banks), which came into force on 1 January 2015, the HYPO NOE Group is required to draw up a recovery plan. The embedding of the plan in day-to-day operations pursuant to the Act is integral to the Group's risk and capital management framework.

At the core of the expanded risk management and overall control processes implemented under the recovery plan, specific indicators and restructuring and communication measures will be established, as well as robust escalation and decision-making processes within the recovery governance structure that supplement the existing control measures in the event of an impending or unfolding crisis.

Early warning and recovery indicators are an integral part of the reporting within the relevant management bodies.

The regular review of the Group's recovery plan for 2021, as required by the Act on the Recovery and Resolution of Banks, is under way. It involves assessing selected indicators (including defined threshold values) and the defined escalation process, as well as updating recovery measures including overall restructuring capacity and the modelled scenarios.

Together with the stable business model, which is geared towards maintaining profitability over the long term, and dictates that risks can only be assumed on the basis of an overall risk strategy that is in line with the Group's regional roots in Lower Austria, the recovery plan forms an additional key element in protecting the Group's assets, and those of its business partners and shareholders.

Bank-wide stress test

As part of the internal Bank-wide stress testing process, an economic study compiled every year provides the basis for the annual analysis of scenarios relevant to the HYPO NOE Group's business model. The impact of the scenarios on credit, investment and liquidity risk, net interest income and credit spreads, as well as on the recognition of additional risk provisions pursuant to IFRS 9 and expected defaults, are simulated at Group level to determine both regulatory and economic risk-bearing capacity. The results of the stress test and possible countermeasures identified are reported to the Management Board and presented to the Risk Management Committee (RICO) and Risk Committee.

In addition, reverse stress tests are carried out annually.

Basel III/IV

In the first half of 2021, following rigorous tests, the amendments to the regulations collectively referred to as CRR II, which entered into force on 28 June 2021, were implemented in the Group's operations. Various refinements to implementation are planned in the second half of 2021. As regards BCBS 424, which was published towards the end of 2017, and *inter alia* contains a complete revision of the standardised approach to credit risk, the Commission's first draft of the CRR III was originally expected to appear during summer 2020, but during the first half of the year this was put back as a result of the Covid-19 crisis and it has not yet been published.

Minimum requirement for own funds and eligible liabilities (MREL)

As a result of the annual update of the MREL, in June 2021 the following minimum requirements were established for the HYPO NOE Group by order of the FMA:

- 5.9% of leverage ratio exposure (2020: 5.9%) or
- 20.92% of total risk exposure (2020: 24.63%)
- EUR 850m in MREL-capable liabilities (2020: EUR 759m)

Total liabilities and own funds was replaced as the calculation basis by leverage ratio exposure. The minimum requirements established by the regulator are being met with ease as there are sufficient eligible liabilities and own funds.

Credit risk

Information on credit risk can be found in Note 4 Financial instruments and credit risk.

Market risk

General

Market risks are potential losses resulting from adverse changes in the net asset value of exposures due to changes in market prices.

Market risks specific to banking include:

- Interest rate risk in the banking book
- Credit spread risk
- Foreign exchange risk
- Options risk (volatility risk)
- Trading book risk
- Basis risk
- Credit valuation adjustment (CVA) risk
- The concentration risk inherent in market risk
- Commodity price risk
- Share price risk
- Fund price risk
- Sustainability risk

The HYPO NOE Group's market risk management strategy sets out the strategic guidelines for managing market risks specific to banking.

The main market risks facing the HYPO NOE Group are interest rate risk in the banking book and credit spread risk (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 set up detailed oversight and control processes to address these risks. Due to business strategy considerations, some foreign exchange and option risks (e.g. embedded upper and lower interest rate limits) are also managed. The use of derivatives to hedge interest rate risk can give rise to basis risk, which is likewise closely watched. Risk management procedures and methods have also been put in place to deal with the CVA risk associated with derivatives. The concentration risk inherent in market risk chiefly arises from own investments made to control the liquidity reserve, and is managed and limited together with the latter. The Bank also uses the small trading book to 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 material risks may be incurred in these market risk categories. Sustainability risk is limited and managed, among other measures, by applying inclusion and exclusion criteria.

The HYPO NOE Group's market risk strategy is based on the principles set out below, which are enshrined in the Group's risk strategy. These principles guarantee capital coverage of the market risks incurred at all times, and underpin the related monitoring, control and transparency of the individual market risk positions as follows:

- Identifying and regularly evaluating market risks
- Specifying and regularly reviewing the suitability of models and processes for measuring market risks
- Quantifying market risk on the basis of the processes established
- Determining Management's risk appetite and tolerance with respect to the various individual market risk categories, taking account of risk and reward expectations
- Identifying and implementing legislative and regulatory frameworks
- Appropriately limiting and monitoring market risk on the basis of the specified risk tolerance
- Goal-driven reporting

Interest rate risk in the banking book

When measuring, managing and restricting interest rate risk, the HYPO NOE Group distinguishes between period net interest income risk – which mainly tracks the risk of net interest income fluctuations in a given period – and present value risk, which measures decreases in the asset value of a particular portfolio due to interest-rate-induced changes in present value.

An independent back office department, Strategic Risk Management, is responsible for monitoring and quantifying interest rate risk. This scrutiny includes watching interest rate gaps and sensitivity analyses. Positions with interest rates fixed for indefinite periods are modelled and regularly assessed on the basis of statistical models and/or expert estimates. Analyses are made for the entire banking book and for sub-portfolios.

The management of intra-year interest rate risk positions is the responsibility of the Treasury/Capital Market/FI Department, while the ALM team handles management of long-term interest rate risk positions. The main objective is to make stable, long-term contributions to net interest income, while also managing the present value of interest rate risk. Material fixed-interest positions and non-linear interest risks in the retail and refinancing segments are usually hedged. Strategic long-term positions in the banking book that are sensitive to interest rates are managed in compliance with the corresponding limits set by ALM. The Bank normally aims to prevent any option positions with a significant bearing on IFRS fair value. Because of this, there are strict limits on the use of open option derivatives for interest rate management.

Current interest risk situation: total banking book

The OeNB statistics show interest rate risk remaining low relative to the regulatory limits (20% of eligible capital). The following table shows the results of the OeNB regulatory interest rate risk statistics as at 30 June 2021 and 31 December 2020:

OeNB regulatory interest rate risk statistics	30 Jun. 2021	31 Dec. 2020
OeNB interest rate risk statistics	2.00%	4.92%
Supervisory outlier test	1.02%	3.42%

Credit spread risk

Credit spread risk is the impact of adverse changes in risk premiums on securities, and of the related loss of net asset value. This type of risk plays a particularly important role in connection with the Group's own investments. The capital requirements resulting from credit spread risk are determined using a historical value-at-risk (VaR) model (historical distribution assumption) for the entire nostro portfolio in the banking book, and for the securities portfolio in the small trading book.

Other market risks

Refinancing in the same currency and the use of FX derivatives means that foreign exchange risks are effectively eliminated for the Group. Consequently, under the Capital Requirements Regulation, as at 30 June 2020 the Group was not subject to the minimum capital requirement for foreign exchange positions, as the total position for the Group as a whole was less than 2% of eligible capital.

The 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.

The Group does not engage in any business that requires it to maintain a large trading book as defined by the CRR. It maintains a small trading book in accordance with Article 94 CRR, and the volume of business is accordingly limited, in line with that Article. Daily observation is performed by the Strategic Risk Management Department. During the first half of 2021 there were no instances of positioning in the small trading book.

Basis risks in hedge accounting arise from the use of different discount curves for hedging instruments and underlyings, as well as from the requirement to recognise the foreign currency basis in the hedging instrument without recognising the basis in the underlying. Basis risks arising from differing discount curves are in principle purely valuation risks that arise from current market practice with respect to valuation in hedge accounting. Cash-collateralised derivatives (e.g. collateralised by means of a credit support annex, CSA) are discounted using the risk-free (OIS) interest curve. Collateralised underlyings are discounted using the Interbank Offered Rate (IBOR), which includes the interbank liquidity spread as well as the risk-free rate. FX basis risks arise when the FX basis components in the hedged underlying 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.

When calculating the fair value of derivative instruments, the CVA for counterparty risk and the debt valuation adjustment (DVA) for the Bank's own credit risk must be taken into account. The CVA is calculated using customary methods (expected exposure arrived at by means of a Monte Carlo simulation, and probability of default according to CDS curves). Global CDS curves 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.

The HYPO NOE Group distinguishes between intraday liquidity risk management, operational liquidity management (up to one year), and the planning and implementation of the medium-to-long-term refinancing strategy (structural liquidity risk).

Liquidity risk management targets

The liquidity risk management function identifies, analyses and manages the HYPO NOE Group's liquidity risk position, so as to maintain sufficient, cost-effective liquidity coverage at all times.

This gives rise to the following fundamental objectives of the Group's liquidity risk management:

- Maintenance of a sufficient liquidity buffer, based on suitable stress tests and limit systems, to maintain solvency at all times
- Optimisation of the refinancing structure with respect to risk tolerance, maturity transformation and costs
- Comprehensive planning of the medium-to-long-term refinancing strategy
- Coordination of issuance activity on the money and capital markets
- Risk and cost-reflective pricing
- Compliance with statutory regulations and legal frameworks

These objectives define the core elements of the Group's liquidity risk management regime, namely:

- The identification and regular assessment of liquidity risks
- The selection of, and regular review of the suitability of models and processes for measuring identified liquidity risks
- Quantification of liquidity risk on the basis of the established processes
- The identification of, and compliance with statutory regulations and legal frameworks
- Determination of management's risk appetite/tolerance
- Maintenance of an appropriate liquidity buffer at all times
- Reasonable limitation and monitoring of liquidity risk on the basis of the specified risk tolerance
- Goal-driven reporting
- Existence of emergency plans and processes, and their regular review to ensure that they are up to date and appropriate
- Efficient and timely management of operational liquidity
- Approval and monitoring of the implementation of the medium-to-long-term refinancing strategy
- Employment of processes and procedures aimed at the risk-reflective allocation of liquidity costs

Implementation of liquidity risk management

Day-to-day liquidity requirements are monitored and managed on the basis of daily reports prepared by the Strategic Risk Management Department.

The department compiles extensive monthly liquidity risk reports to assist in the analysis and control of operational and structural liquidity, and monitoring of compliance with the liquidity risk limits. These reports describe and analyse operational liquidity risk over a period of 12 months according to a normal scenario (volatility scenario), as well as three stress scenarios (name crisis, market crisis and combined crisis), and the structural liquidity risk inherent in the normal scenario. In addition, the Management Board receives comprehensive monthly progress reports on the liquidity position, incorporating planning assumptions and key liquidity risk indicators, as well as information on the current liquidity situation. The Management 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 point in time when the liquidity reserve will no longer be sufficient to cover the net cash outflows is calculated.

With a limit of eight weeks (or 12 weeks in the event of an early warning), the HYPO NOE Group's time to wall as at 30 June 2021 was robust at more than 52 weeks (31 Dec. 2020: more than 52 weeks). Alongside time to wall, the regulatory liquidity coverage ratio (LCR) is an important control metric for operational liquidity. The LCR is reported on a monthly basis and is integral to the Group's operational liquidity management and the planning processes. The LCR reported to the regulator was 256.68% as at 30 June 2021 (31 Dec. 2020: 199.55%). Besides the economic capital and structural funding ratio indicators, the regulatory net stable funding ratio (NSFR) is also measured and managed as a lever of structural liquidity risk. The NSFR as defined by the CRR II was first reported on 30 June 2021, when it was 125.67%.

Besides various internal limits, there are early warning indicators, designed to identify impending critical liquidity situations as early as possible, so that the Bank can take timely countermeasures.

Current liquidity risk situation

The HYPO NOE Group is in a strong position as regards its refinancing options. It draws its liquidity from conventional capital market transactions and deposits, as well as standard repo transactions and ECB tenders. The Group also uses its close relationships with development banks as a source of refinancing. Customer deposits are a mainstay of the refinancing mix, which demonstrates the Group's standing as a valued partner to institutional investors.

The Group continued its capital issuance programme – a longstanding success story – in the first half of 2021. A total of one billion euros in newly issued debt was taken up, made up of a EUR 500m senior preferred benchmark bond issue and a EUR 500m publicly secured covered bond.

The Group's liquidity position is solid. The refinancing mix adopted, comprising current account and savings account deposits, fixed-term deposits from institutional customers and capital issues, ensures that this will remain 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 designed to limit liquidity risk – the Basel III indicators, LCR, NSFR and additional liquidity monitoring metrics (AMM) – were calculated on the basis of the published standards and reported to the Austrian regulator. Where applicable, the minimum regulatory requirements were observed. In future, compliance with the statutory regulations in day-to-day operations will be underpinned by the integration of the requirements with the internal liquidity risk management and planning processes, together with strict internal targets and operational control processes already in place.

The HYPO NOE Group's primary instruments for managing and covering short-term maturities are its available liquidity reserve, cash reserves and overnight investments. The Group draws a distinction between high-quality, highly liquid assets (HQLA) and other ECB or GC Pooling repoable collateral. Strategic liquidity is mainly generated by means of OeNB tenders and GC Pooling repos. As a result of participation in the ECB's TLTRO III programme a large part of the liquidity reserve has been converted into demand deposits at the OeNB.

Operational risk

Operational risk is the danger of losses arising directly or indirectly from the inadequacy or failure of internal processes or systems, human error or external events. In each category of operational risk, legal risks can result in losses. This is because in every category the HYPO NOE Group can be exposed to claims or legal proceedings arising from alleged breaches of contractual, statutory or regulatory requirements. Information and communication technology (ICT) risk and reputational risk (which is treated as a separate category) are closely related to operational risk. However, business risks do not form part of the latter.

The management of operational risks in the HYPO NOE Group is subject to a consistent Group-wide system of controls. The following methods are used to identify, evaluate and mitigate operational risks:

- Continuous recording of operational risk events, including the development of countermeasures designed to recognise or avert 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 quarterly status reports to the Management Board
- Forward-looking monitoring of the operational risk profile using key risk indicators
- Evaluation of factors that could alter the risk profile, such as the introduction of new products or outsourcing activities
- Ongoing adaptation of and improvements to internal guidelines
- Management of business interruption risks by means of emergency plans embedded in the business continuity management (BCM) system
- Strict adherence to the four-eye management principle so as to reduce the likelihood of the occurrence of risk events
- In-service training as part of staff development
- Insurance against various risks

There is also an emphasis on continuously improving the effectiveness and efficiency of operational risk management processes. The operation and continuous improvement of an effective internal control system (ICS) is aimed at reducing the likelihood of operational risk events and minimising their impact. Risks are systematically identified and assessed, controls agreed and developed, and where necessary key processes adapted.

Current operational risk situation

Information on operational risk events in the year under review was systematically collected in the central database. Improvements are seen as crucial to controlling operational risk: they were painstakingly formulated and implemented whenever operational risk events and near-miss incidents occurred.

A stand-alone crisis team has been managing the measures taken in response to the Covid-19 pandemic since March 2020, and has introduced the following arrangements, among others: floor separation at two bank sites (HYPO NOE headquarters and the branch in Vienna's Wipplingerstrasse); ongoing information for employees; widespread home office working; installation of Plexiglas partitions at branches; and use of "split teams" (division of employees into teams with alternating attendance requirements) at the strategically significant units. Appropriate reporting to the Management Board was implemented. Thanks to the measures taken, there were no confirmed infections on Bank premises and operations continued without interruption. Operating losses due to the Covid-19 pandemic, which have so far been insignificant, are being recorded in accordance with the European Banking Authority (EBA) guidelines.

The early warning and key risk indicators have performed satisfactorily.

The ICS was updated in the course of the annual review. Consideration of the implications of heavy reliance on home office working due to Covid-19 was included.

The risk content of new products was routinely surveyed using a standard evaluation tool which is built into the product launch process.

Due to the Group's digitalisation efforts, ICT risk has become a major issue. It is addressed by means of close cooperation between the Organisation & IT and Strategic Risk Management departments. Following the completion of an initial project aimed at meeting the requirements of the EBA risk guidelines and the Austrian Financial Market Authority (FMA) ICT risk manual, work is now proceeding on the identification, assessment, mitigation and documentation of ICT risks using a specialised tool (CRISAM®). The following three sources of risk are considered: the *Allgemeines Rechenzentrum* (ARZ) computer centre, in its capacity as the developer and operator of the core banking system; HYPO NOE Landesbank, its employees and processes, and the IT systems and applications developed by it; and third parties to which ICT services are outsourced.

Reputational risk

The HYPO NOE Group attaches great importance to limiting and managing reputational risk, and it is therefore treated as a separate risk category. Great care is taken to avoid potential harm to the reputation of the HYPO NOE Group when taking business decisions, and a process for evaluating reputational risk is in place.

Reputational risk is the danger of direct or indirect damage to the Group's good name, and the opportunity costs that this would entail. Such damage can compromise the Group's standing and undermine the trust of its stakeholders, including customers, investors, employees, business partners and the community. It may stem from a failure to live up to these stakeholders' expectations.

In the Group's view, the means of meeting those expectations lies in effective business processes, coupled with sound risk monitoring and management. The Group's code of conduct outlines the common values and principles shared by its workforce. The HYPO NOE Group also avoids business policies and transactions associated with particularly acute legal or tax risks, or with substantial environmental risks. The Group's lending is subject to clear ethical guidelines and business principles, geared towards strict conformity with a holistic environmental and social sustainability approach. In this way the Bank ensures that loans are only extended for purposes that are compatible with its philosophy and sustainability strategy. The ethics guidelines and business principles comprise inclusion and exclusion criteria, and are the basis for initiating new business across the Group. These criteria are also explicitly referred to by a "reputational risk questionnaire" that forms part of the loan application and is a mandatory filter.

The independent Group ombudsman deals quickly and efficiently with customers' concerns (such as complaints and misunderstandings), and seeks to find satisfactory solutions in consultation with them. Besides meeting the statutory requirements, the goal is to improve customer relationships and mitigate reputational risk.

Other risks

The following types of risk are classified as "other risks":

- Business risk (the danger of loss resulting from a deterioration in the economic environment or in the HYPO NOE Group's business relationships)
- Strategic risk (the danger of losses arising from decisions on the Group's basic focus and business development)
- Macroeconomic risk (potential losses resulting from exposure to macroeconomic risk factors)
- Concentration risk – encompassing various types of risk (potential adverse consequences of the concentration of, or interplay between similar or differing risk factors or types of risk)
- Leverage risk (any threat to the Bank's stability arising from its actual or potential indebtedness)
- Real estate price risk (potential losses due to downturns in property prices and the resultant adverse effect on the fair value of a property)
- Model risk (potential losses arising from the consequences of decisions that stem from internal approaches, and which are attributable to errors in the development, implementation and application of such approaches)
- Outsourcing/insourcing risk (risks connected with the outsourcing or insourcing of banking operations)
- Data protection risk (risks arising from data processing that could lead to physical, tangible or intangible damage)
- Securities risk arising in connection with the Austrian *Wertpapieraufsichtsgesetz* (Securities Supervision Act), i.e. risks arising from the provision of securities-related services

The Group identifies and monitors such potential risks, and uses equity to hedge them, responding to negative changes at an early stage.

Sustainability risks

In line with the recommendations of the FMA Guide for Handling Sustainability Risks, when drawing up its risk inventory the HYPO NOE Group has incorporated sustainability risks in the existing main risk categories of its risk map as sub-categories (effect on existing types of risk). The risk manuals and strategies are being revised accordingly.

As suggested by the FMA guide, new methods and tools adopted featured a "heat map" to classify the climate risk involved in the loans extended, as well as clear exclusion and inclusion criteria for lending policies. In addition, negative impacts of extreme weather events are analysed as part of the annual Bank-wide stress test. There are also ongoing interbank information exchanges between members of ARZ, aimed at creating synergies by boosting efficiency and minimising costs through joint implementation of software in the core banking system.

The potential sustainability risks within the individual risk categories will be thoroughly reviewed. To this end, a central contact person and coordinator has been appointed in the Strategic Risk Management Department. The results of this evaluation will subsequently be reflected in the Group's strategic risk objectives, and its operational business and risk management processes.

Risk buffer

To deal with unquantified risks which the risk inventory has determined should be given equity cover when the risk-bearing capacity is computed, the Group maintains a risk buffer which is calculated on the basis of the quantified risks. The risk buffer is treated as an exposure class forming part of the Bank's aggregate risk in the total risk-bearing capacity calculation, and is broken down into model risk, reputational risk and other non-quantified risks. The more sophisticated and accurate risk measurement processes are, and the smaller the share of the non-quantified risks they include, the smaller the capital buffer can be.

Latent legal risks

It is standard practice to recognise provisions for litigation in which the outcome or any potential losses can be reliably predicted. In such cases, provisions are recognised at a level deemed appropriate in the circumstances, and in accordance with the applicable accounting principles.

"Unutilised facilities" includes both unused loan facilities and revolving borrowing facilities (e.g. overdraft facilities) where there is a strong probability that the unused credit facilities will be used within a contractually specified period. By contrast credit lines can be used at any time, implying a higher degree of uncertainty with regard to utilisation and the maturity date. The amounts disclosed for unutilised credit facilities include amounts listed in the disclosures in Note 9.2 Disclosures on related-party relationships.

EUR '000	30 Jun. 2021	31 Dec. 2020
Unutilised facilities	1,987,061	1,751,709

9 GROUP STRUCTURE AND RELATED-PARTY RELATIONSHIPS

9.1 Scope of consolidation

The scope of consolidation of the HYPO NOE Group includes all subsidiaries that are directly or indirectly controlled by the parent and are material to the presentation of the Group's assets, finances and earnings. The scope of consolidation is reviewed on an ongoing basis. Besides the parent, HYPO NOE Landesbank für Niederösterreich und Wien AG, the Group comprises 59 Austrian subsidiaries in which the parent meets the criteria for control as specified in IFRS 10. Last year, 60 Austrian subsidiaries were included in consolidation apart from the parent. A total of 13 companies are accounted for using the equity method (31 Dec. 2020: 11).

Where voting rights are seen as conclusive in judging whether control exists, the HYPO NOE Group is normally assumed to control an investee if it directly or indirectly holds or controls more than half of the voting rights. Besides voting rights, other rights and de facto circumstances are taken into account. Where the Group does not control a majority of the voting rights but has the practical ability to direct relevant activities, the Group is also assumed to control an entity.

All material intra-Group transactions are eliminated on consolidation. The HYPO NOE Group does not apply proportionate consolidation, as it does not hold interests in joint operations.

Joint ventures (IFRS 11) and associates (IAS 28) are accounted for using the equity method. The first step towards determining whether there is joint control is to discover who exercises power over the relevant activities. Joint control exists if such power is exercised by two or more parties on a contractual basis. Associates are entities over which the HYPO NOE Group directly or indirectly has significant influence. Significant influence over an entity usually exists if the Group holds between 20% and 50% of the voting rights. Besides the extent of the voting rights, the Group also takes account of other factors which indicate that significant influence is exercised. These include representation of the Bank on the management or supervisory bodies of the investee, or participation in key decisions. In such cases, the question as to whether there is significant influence is also considered even if the Group holds less than 20% of the voting rights.

Changes in 2021

All shares in HYPO NOE First Facility GmbH, previously a consolidated subsidiary, were sold by HYPO Officium GmbH to PKE Holding AG with effect from 31 May 2021.

The companies PPP Campus RAP + LGG GmbH and PPP Campus RAP + LGG GmbH & Co KG were established on 19 April 2021. Both are investments accounted for using the equity method.

9.2 Disclosures on related-party relationships

Estimation uncertainties and judgements

The transfer prices between the HYPO NOE Group and related parties were arm's length prices. The State of Lower Austria's guarantees of loans and advances extended to third parties by HYPO NOE Landesbank (see table below) were also all concluded on market terms.

30 Jun. 2021 EUR '000	Parent companies	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties	Identified staff
Open balances						
Selected financial assets	**2,533,841**	**119,805**	**403,465**	**6,005**	**15,054**	**2,925**
Equity instruments	-	71	26,079	5,883	387	-
Loans (incl. demand deposits/loans from central banks)	2,533,841	119,735	377,386	122	14,667	2,925
Selected financial liabilities	**80,142**	**-**	**38,986**	**5,712**	**8,307**	**3,254**
Deposits	80,142	-	38,986	5,712	8,307	3,254
Nominal value of loan commitments, financial guarantee contracts and other commitments	**885,647**	**34,755**	**29,161**	**7,668**	**5,686**	**-**
Nominal value of derivatives	**924,567**	**85,000**	**-**	**-**	**-**	**-**
Current period						
Interest income	20,092	1,018	3,817	-	107	1
Interest expense	-6,987	-	-	-1	-1	-1
Dividend income	-	-	619	-	80	-
Fee and commission income	102	1	133	11	33	11
Fee and commission expense	-	-	-5	-	-	-

31 Dec. 2020 EUR '000						
Open balances						
Selected financial assets	**2,574,524**	**119,234**	**416,384**	**5,604**	**163**	**2,728**
Equity instruments	-	71	25,666	5,408	-	-
Loans (incl. demand deposits/loans from central banks)	2,574,524	119,163	390,718	197	163	2,728
Selected financial liabilities	**32,019**	**3**	**114,549**	**3,959**	**1,249**	**2,782**
Deposits	32,019	3	114,549	3,959	1,249	2,782
Nominal value of loan commitments, financial guarantee contracts and other commitments	**880,763**	**35,667**	**12,033**	**7,593**	**-**	**-**
Nominal value of derivatives	**928,955**	**85,000**	**-**	**-**	**-**	**-**
Current period						
Interest income	46,150	2,055	8,335	1	-	3
Interest expense	-12,930	-	-33	-1	-2	-3
Dividend income	-	-	670	-	-	-
Fee and commission income	133	2	181	21	-	1
Fee and commission expense	-28	-	-1	-	-	-

10 EVENTS AFTER THE REPORTING PERIOD

On 30 July 2021 the Austrian Financial Market Authority (FMA) prohibited AutoBank AG (AutoBank) from continuing its business operations with immediate effect. As a result, AutoBank's customers no longer have access to their accounts. On 3 August 2021 Einlagensicherung Austria Ges.m.b.H (ESA) began informing AutoBank customers regarding the deposit guarantee claim in accordance with Article 9 Deposit Guarantee Schemes and Investor Compensation Act (ESEAG). A possible impact on the HYPO NOE Group would be an increase in the required contribution to the deposit insurance fund. The information currently available does not allow an estimate of the potential impact to be made.

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that, to the best of our knowledge, the condensed 2021 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 2021 interim consolidated financial statements. Essentially the same accounting policies were applied as to the financial statements for the year ended 31 December 2020.

St Pölten, 11 August 2021
The Management Board

Wolfgang Viehauser
Management Board Member Markets and Spokesman

responsible for

Sales Strategy & Digitalisation, 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, Org. & IT and Internal Audit

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Website: www.hyponoe.at/en/home

Investor Relations: investorrelations@hyponoe.at

Tel. +43 5 90 910 - 0

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The greatest possible care has been taken in preparing this semi-annual financial report. However, transmission, typesetting and printing errors cannot be ruled out. Minor rounding differences may occur in connection with totals of rounded amounts and percentages.

The forecasts and forward-looking statements contained in this interim report are based on current estimates and information available at the time of writing. They should not be taken as a guarantee that results expressed in forecasts and forward-looking statements will actually occur; actual results are subject to risks and other factors, and could therefore differ materially from results contained in forecasts or forward-looking statements. The Group is not obliged to update its forecasts and forward-looking statements.

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