SEMI-ANNUAL FINANCIAL REPORT **2023**

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 2023	H1 2022
Net interest income	86,612	67,944
Administrative expenses	-60,369	-59,165
Impairment losses/gains on financial assets – IFRS 9 ECL	-2,056	2,583
Profit before tax	**66,473**	**25,500**
Income tax expense	-15,665	-6,068
Profit for the period	**50,808**	**19,432**
Return on equity before tax	16.49%	6.82%
Cost/income ratio	52.01%	53.44%

Consolidated statement of financial position	30 Jun. 2023	31 Dec. 2022
Total assets	15,583,477	15,121,252
Financial assets – AC	14,191,566	13,899,591
Financial liabilities – AC	13,720,461	13,362,690
Equity (incl. non-controlling interests)	835,473	790,571
Non-performing loan ratio	1.37%	1.02%

Regulatory indicators	30 Jun. 2023	31 Dec. 2022
Eligible Tier 1 capital	771,698	772,830
Total eligible capital	771,698	772,830
Minimum capital requirement (Pillar I)	310,579	301,300
Excess equity	461,118	471,530
Total risk exposure amount in accordance with Art. 92(3) CRR	3,882,244	3,766,253
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	19.88%	20.52%
Total capital ratio in accordance with Art. 92(2)(c) CRR	19.88%	20.52%
Leverage ratio in accordance with Art. 92(2)(d) CRR	5.05%	5.14%
Liquidity coverage ratio (LCR)	163.72%	162.89%
Net stable funding ratio (NSFR)	114.36%	112.54%

Operational resources	30 Jun. 2023	31 Dec. 2022
Employees	617	616
Branches	26	27

FOREWORD BY THE MANAGEMENT BOARD

For several years now, we have found ourselves facing a series of constantly changing challenges. And the first half of this year was no different – it was also shaped by demanding global economic obstacles: inflation, the continued war in Ukraine and production bottlenecks did nothing to enhance global stability. At the same time, a range of factors led to a drop-off in residential construction, as well as a fall in demand for related financing. In typical HYPO NOE fashion, we responded to these developments prudently and flexibly, deploying our resources effectively with a view to safeguarding the Group's competitiveness.

In view of the challenging backdrop over the past few months, we can be proud of the excellent results we posted in the first half of this year. The growth in operating income was once again highly satisfactory, improving on the back of sustained core earnings. "Profit before tax" was notably high, at EUR 66.5m, due to a non-recurring effect recognised during the reporting period. In line with the Group's risk-aware business model, we recognised substantial provisions for negative interest rates when the European Central Bank was pursuing a zero interest rate policy. Due to the interest policy shift we are now seeing, and following repayment of negative interest to our customers, these provisions are now no longer required and have been reversed. "Net interest income" advanced from EUR 67.9m to EUR 86.6m, while the cost/income ratio remained low at 52%. The equity ratio held steady at an outstanding 19.88%.

Our success in the first half of 2023 was not only underpinned by our exceptional results. For many years now, HYPO NOE Landesbank has had a strong reputation as a stable, risk-conscious financial institution among investors all over the world. Thanks to our excellent standing, we were able to continue our capital market issuance programme in the first six months of this year with three new issues: a EUR 500m green senior preferred benchmark bond, a EUR 500m covered bond from the public sector cover pool, and a senior unsecured retail bond.

A study of HYPO NOE's economic footprint presented at the start of the year by economic research institute Economica underlined just how important our strong performance is, not just for the Group itself, but also for our home market of Lower Austria and Vienna. According to the analysis, for every person employed by HYPO NOE, the Group creates another job outside the Bank. Every euro of added value generated by HYPO NOE's operations creates 35 cents of regional added value for Lower Austria alone, and 44 cents nationwide. This clearly shows that as a business based in the region, HYPO NOE plays a substantial part in the Lower Austrian economic system and creates added value for the state as a whole.

As the bank for the state of Lower Austria, HYPO NOE's ability to create this added value is primarily due to its 600 or so employees, who work hard every day to develop and offer our customers individualised, bespoke solutions. And with this in mind, we believe we have a duty to ensure the best possible working environment for our people. The Group gauges employee satisfaction by means of regular, anonymous internal surveys, which it also uses to collect suggestions for improvements, and then takes corresponding action. These efforts are not only appreciated internally – they also lead to greater satisfaction among our employees. These measures are also regarded positively outside the Group: not only has HYPO NOE achieved Leading Employer status, which places it among the top 1% of employers in the country, this year the Group has also completed its latest berufundfamilie (Career and Family) recertification audit.

Our forward-looking, future-led strategy has left us ideally placed to address upcoming challenges and capitalise on any opportunities that present themselves. The Group's overriding objective is still to foster enduring and long-lasting partnerships with its customers and investors. Especially in view of the continuing economic difficulties we are facing, we want to carry on channelling all of our energies into providing our customers with the best possible support when it comes to managing their finances and acting as a strong partner on financial matters.

In particular, we would like to thank all of our employees for their outstanding personal dedication. Our shared commitment and strong convictions have played a significant part in our continued joint success, and in enhancing our position on the market. Without so many people rolling up their sleeves and providing support precisely where it is needed, we would not have been able to post such a strong performance. Thank you!

Wolfgang Viehauser
Management Board Member Markets and
Speaker of the Board

Udo Birkner
Management Board Member Finance,
Risk & Operations

GROUP OPERATIONAL AND FINANCIAL REVIEW

FOR THE SIX MONTHS ENDED 30 JUNE 2023
IN ACCORDANCE WITH IFRS
HYPO NOE GROUP

1 ECONOMIC CLIMATE

1.1 Global economic and financial market trends

2023 got off to an unexpectedly positive start economically speaking, given the subdued outlook at the end of 2022. Early signs of the hoped-for economic recovery in China in the wake of the country's abandonment of its zero-Covid strategy in December 2022 were confirmed by a noticeable rebound in some leading indicators, as well as Q1 growth of 4.5%. Though economic growth in the USA faltered slightly, seasonally adjusted annual economic output still increased by 2.0%. Business confidence indicators in the eurozone at the beginning of the year built on the positive momentum witnessed in Q4 2022, and continued to improve steadily until March. Thanks to concerted efforts by many EU member states to significantly reduce their reliance on Russian gas, concerns about supply shortages over the winter failed to materialise. However, this came at a very high price. The situation was also helped by a relatively mild winter, wide-ranging measures implemented by businesses and private households to cut gas consumption, and subdued demand from China. Fill levels at gas storage facilities were still high at the start of spring, and continued injections from then until autumn 2023 are expected to safeguard supply security for the coming winter.

The improving business sentiment indicators in the eurozone should, however, be considered against the backdrop of the extremely pessimistic economic outlook at the end of 2022. Economic output declined marginally during winter 2022/23. Developments across different economic sectors painted a varied and asymmetrical picture. While the European industrial sector slipped even more clearly into recession in the first half of 2023, the services sector was already on the road to recovery. The contraction in industrial output would have been even more pronounced without the significant order backlogs that had built up over the previous two years, primarily due to delays caused by Covid-19. Strong order books coupled with the gradual easing of supply chain issues made up for continued negative order intake to some extent.

Private consumption has also been sluggish so far this year. Soaring and widespread inflation led to a significant drop in real income for workers, who cut back on their consumer spending as a result. In many places, the government support measures put in place for private households only partially offset the effects of energy price increases and rising inflation. Meanwhile, continued labour market buoyancy in tandem with the excess savings built up during the Covid-19 pandemic in 2020 and 2021 have so far prevented an even sharper slowdown in private consumption. While private demand for household goods has been weak over the course of this year, demand for services – especially in the tourism, hospitality and hotel sectors, which were particularly hard hit by the pandemic – remains robust as a result of pent-up demand.

The outlook for the global economy became increasingly gloomy towards the end of the first half. The recovery seen in the Chinese economy already seems to be faltering again – at least as reflected in key leading indicators, as well as significant economic data such as industrial output, and retail, import and export figures. The restrictive monetary policies implemented by the major central banks – with the exception of Japan and China – are gradually bearing fruit and weighing on economic growth in western industrialised countries. While industry in the US is also in recession, the service sector has weakened, too. The leading indicators – the ISM's Manufacturing PMI and Service PMI – both fell in May to 46.9 and 50.3 points, respectively. The threshold demarcating expansion and contraction is 50 points. The probability that the US economy will fall into recession before the end of this year has dropped recently, but this cannot be completely ruled out. The outlook for the eurozone has likewise clouded over again. The recovery in the leading indicators came to a standstill at the end of the reporting period, and the first significant declines were recorded.

This year has seen a discernible change in the overall trend when it comes to inflation. After two years of sharp increases in consumer prices across the board, inflation rates are receding again this year. Virtually all factors that had a significant impact on the rise in inflation in the last two years are showing clear signs of easing. Global demand is also being weakened by central banks' restrictive monetary policies. Supply constraints – which were chiefly attributable to Covid-19-related supply chain issues – are also gradually being resolved. In the meantime, commodity prices have dropped significantly from the highs triggered last year by the war in Ukraine. Energy commodity prices in particular were once again noticeably lower towards the middle of the year. Brent crude is trading below USD 80/barrel compared to just under USD 140/barrel at its 2022 peak. The drop in gas prices is even more pronounced: after reaching a new all-time high of EUR 343/MWh in August 2022, the price for the European benchmark gas product (Dutch TTF Natural Gas Forward 1 Month) was again trading at below EUR 30/MWh at the beginning of June 2023, marking a return to June 2021 levels. However, the drop in prices is only trickling through to consumers very slowly.

The decline in commodity prices and the easing of supply chain problems – in addition to favourable statistical base effects – are contributing to a noticeable slowdown in headline inflation. In the eurozone, headline inflation had fallen to 5.5% as of June 2023 from its peak of 10.6% in October 2022 – and the downward trend is continuing. By contrast, core inflation, which is more important for the ECB's monetary policy decisions, is developing less favourably – the rate has plateaued at about 5.5% and a reversal is yet to set in. This is due to the fact that energy and food prices are not taken into account when determining core inflation. And it is precisely these two price groups that are associated with a particularly significant disinflationary effect. In addition, the price of services is accorded a higher weighting when calculating the core inflation rate, and the service sector has developed comparatively well so far, but is lagging behind somewhat in terms of price increases. As a result, a decline in the price dynamics affecting the core rate of inflation is not expected until the second half of 2023.

Central banks were still in a cycle of hiking interest rates at the end of the reporting period. Since last year, central banks have tightened monetary policies at a rate not seen since the 1980s. By May, the Fed had raised its key interest rate to 5.0-5.25% – from a starting point of 0.0-0.25% in March 2022. At the same time, the Fed has continued its scheduled balance sheet reduction programme amounting to about USD 95 billion/month.

The ECB is also currently in the heaviest cycle of interest rate hikes in its history. Between June 2022 and June 2023 it raised its three key interest rates by 400 basis points. At the same time, the ECB's securities portfolio shrank by about EUR 15bn/month from February to June 2023, which was less aggressive than the Fed’s run-down. The pace of the reduction is set to be increased to around EUR 30bn/month from July. While it can be presumed that the Fed’s interest rate increases topped out in May (although a final rate hike of another 25 bp cannot be ruled out), as yet there is no foreseeable end to the ECB's cycle of rate hikes. The terminal rate is expected to hit 3.75% (ECB deposit rate). After that, the capital market expects interest rates to plateau for a considerable period with the first, moderate rate cuts only coming at some point in the course of 2024. In this respect, expectations are higher for the Fed's monetary policy, as its first interest rate cuts are expected in early 2024. Ultimately, though, the decisive factor will be how quickly and sharply inflation recedes and/or how markedly the economy cools down going forward.

The central banks’ decision to raise interest rates is increasingly posing a threat to the stability of the financial system. The first warning of this came in March when three medium-sized US banks ran into liquidity difficulties and had to be wound up or merged into larger US banks. Despite the US’s comparatively weakly regulated sector of small and medium-sized banks, which come under particular pressure from high interest rates due to their extensive commercial real estate lending, only very few market participants are expecting a repeat of the global financial crisis.

The combination of geopolitical uncertainty, persistently very high inflation and central banks’ restrictive monetary policies have made for a very challenging environment on the capital and foreign exchange markets. In contrast to 2022, however, market sentiment has been largely constructive so far this year. March, though, was an exception, as the first noticeable price corrections in corporate bonds and equities occurred in the wake of the financial difficulties at some medium-sized banks in the USA. But the markets also recovered quickly thanks to rapid injections of liquidity by the US Federal Reserve and after takeovers of ailing US banks by larger competitors. In Switzerland, too, the failure of Credit Suisse – the country’s second-largest bank – and the resulting impending financial crisis were prevented by means of an organised emergency takeover by UBS, the country’s largest bank. These events left barely any lasting negative impression on the markets, although the further rise in interest rates and the deteriorating economic situation certainly has the capacity to give rise to some risk factors for high-risk assets such as shares and corporate bonds. Companies’ predominantly good earnings, which continued into Q1 2023, seemed to have something of a calming effect on investors.

Having come under pressure for an extended period in 2022, especially in relation to the USD and the Swiss franc, the euro exchange rate mounted a recovery in the first half of 2023, at least against the USD. The euro suffered in 2022 as the eurozone economy initially appeared more vulnerable both in terms of energy supply and energy prices. However, the avoidance of a gas shortage and a convergence of the economic outlook for the US and the eurozone have fuelled the euro’s recovery against the US dollar this year. The narrowing interest rate differential between the US and the euro area has further supported this development.

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

1.2.1 Austria and Germany

In spite of the challenging geopolitical environment, both countries in the HYPO NOE Group's core market once again recorded economic growth in 2022. According to the Oesterreichische Nationalbank (OeNB), economic growth in Austria, at 4.9%, was significantly higher than in Germany (up 1.8%). The figure for the eurozone was 3.5%. In 2022, thanks to a significant recovery in the tourism sector, the Austrian economy benefited from extremely strong export growth and accelerated public investment, as well as fiscal packages, which stimulated private consumption in spite of high inflation. Even so, growth was already down by the fourth quarter of 2022. Expanding by just 0.1%, the economy was also extremely anaemic in the first quarter of 2023.

Supply bottlenecks and raw material shortages as well as throttled and interrupted energy deliveries fuelled high energy price-driven inflation of 8.6% in 2022 (slight reduction to 7.9% in the first half of this year).

Despite the significant gas price declines in the first half of 2023 (gas price index down 66%), the Austrian Electricity Price Index (ÖSPI) was still 51.5% higher than in July 2022. Coupled with geopolitical tensions, the rapid rise in interest rates and persistently high inflation have also perpetuated a cautious, wait-and-see attitude among market participants. The construction sector, for example, is experiencing a visible decline in order books, which is attributable to various factors including the increased price of raw materials, higher interest rates and stricter capital adequacy requirements for lending.

Even so, the Austrian labour market held steady, with unemployment coming in at 4.6% in June 2023 according to Eurostat in spite of the adverse economic climate. According to reports by the Federal Ministry of Finance, tax revenue between January and May 2023 was up 2.1% on the same period a year earlier; at the same time, it said the task was to continue fiscal policy support measures and make them more effective.

1.2.2 Federal states

After the more or less complete absence of a winter season in 2020/21, the economies of Tyrol, Salzburg and Carinthia – all of which have significant tourism sectors – grew the most in 2022, expanding by more than 7%, although the number of overnight stays again fell short of pre-crisis levels recorded in 2019. According to UniCredit Research (December 2022), the remaining Austrian states recorded growth rates of more than 3.5% year on year (Lower Austria: 4.2%).

The pandemic support payments designed to lessen the impact of inflation hit state budgets once again in 2022. As a result, the state governments' net fiscal deficits are projected to reach a combined EUR 3.6bn (up 33% on 2021). However, the deficits are likely to come in below those of 2020 and 2021, as the revenue shares distributed to state governments in 2022 were EUR 4bn (25.1%) higher than scheduled in 2021 (municipalities up EUR 1.8bn or 15.0%).

Internal estimates suggest that the aggregate financial debt of all states has increased by about 30% since the start of 2020 to EUR 31bn. Aggregate net new debt of EUR 1.5bn was assumed for 2022. The stability pact targets remain suspended, while the fiscal equalisation period has been extended to the end of 2023 and negotiations on fiscal equalisation commenced in December 2022.

1.3 Banking sector trends in the eurozone

In 2022 and the first half of 2023, the banking sector was directly affected by a number of major challenges facing the global economy. These primarily included the war between Russia and Ukraine, high inflation and the monetary policy turnaround by leading central banks.

The OeNB has again reaffirmed the robustness of the Austrian banking sector's business model, as it stressed in its June 2023 financial stability report. In this context, the OeNB explicitly welcomed the FMA Regulation on sustainable lending standards for residential real estate financing, which came into force in August 2022.

The average Common Equity Tier 1 (CET1) ratio of 16.3% as at 31 December 2022 represented a solid point of departure for Austrian banks in the face of current adverse developments. The non-performing loan (NPL) ratio fell slightly to 1.7% at 31 December 2022 (31 Dec. 2021: 1.8%).

The ECB's change of direction on interest rates contributed to significantly improved net interest income for Austrian banks last year; net fee and commission income also increased across the sector. Despite the rise in provisions for credit risks, post-tax profits rose once again year on year. Overall, Austria's banks have continued to benefit from the restructuring efforts of the past few years. In the course of an extended consolidation process, the number of banks (main institutions) has fallen by around a quarter since 2012.

The current challenges identified by the OeNB for the domestic banking sector apply equally to the rest of Europe. However, European banking institutions are fundamentally well positioned; the Basel III regulations, in effect throughout the EU, have so far also prevented the crises witnessed at several US regional banks from spreading to institutions in the eurozone.

The equity ratios of financial institutions in the European Union have recently stabilised at high levels. One of the key trends during the year under review was the continuing digitalisation of customer products and services. Multi-channel approaches – which in the case of universal banks still feature branches, albeit augmented by digital offerings – remained the customary strategy in Europe.

In several European countries and regions, primarily Spain, Italy and Scandinavia, an ongoing trend towards consolidation has been observed in the national banking sector in recent years. In Austria, by contrast, there has been a noticeable break in the process of consolidation, regular mergers of local Raiffeisen banks notwithstanding.

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-compliant" financing structures, enables the Group to concentrate on serving large federal government, state government and local authority clients. Figures for the individual segments, as well as supplementary narrative information, are presented in Note 2 SEGMENT INFORMATION.

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

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

The Bank's sustainable approach to its core operations is underpinned and promoted by clear ethical principles and business policies. Its portfolio is geared 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, Moody's ESG Solutions (previously Vigeo Eiris [V.E]) and imug, and has been awarded the DZ Bank sustainability seal of approval.

1 In terms of total assets (average of 2020-2022 consolidated financial statements) and date of establishment

3 FINANCIAL REVIEW

3.1 Highlights

- Year-on-year increase in “Profit before tax” to EUR 66.5m (H1 2022: EUR 25.5m)
- Further rise in “Net interest income” to EUR 86.6m (H1 2022: EUR 67.9m)
- “Administrative expenses” slightly higher than in the same period a year earlier, at EUR 60.4m (H1 2022: EUR 59.2m)
- Net other operating income of EUR 34.6m (H1 2022: EUR 4.0m) includes non-recurring effects of settlement agreements concerning negative interest on corporate loan agreements
- Improvement in CIR based on operating profit compared with a year earlier, to 52.01% as at 30 June 2023 (H1 2022: 53.44%)
- Non-performing loan (NPL) ratio of 1.37% at 30 June 2023 (31 Dec. 2022: 1.02%)
- Common Equity Tier 1 (CET1) ratio of 19.88% (31 Dec. 2022: 20.52%) without taking first-half earnings into account

3.2 Earnings performance

		Q2 2023	Q4 2022	Q2 2022	Q4 2021
Return on equity before tax	Profit before tax/avg. consolidated equity	16.49%	8.01%	6.82%	7.44%
Return on equity after tax	Profit for the period/avg. consolidated equity	12.60%	6.13%	5.20%	5.74%
Cost/income ratio	Operating expenses/operating income	52.01%	51.69%	53.44%	52.14%
NPL ratio	Carrying amounts of non-performing financial assets – AC (excl. banks)/financial assets – AC (excl. banks)	1.37%	1.02%	0.87%	0.85%

Further progress has been made in implementing the Group’s strategy, which is geared towards achieving a long-term increase in profitability through organic growth in the core business, while also maintaining the Group’s conservative risk profile and strong capital profile. The continuing increase in core earnings has laid the foundations for a further improvement in the Group’s results.

In the first half of 2023 the HYPO NOE Group reported “Profit before tax” of EUR 66.5m (H1 2022: EUR 25.5m) and a return on equity (ROE) before tax of 16.49% (H1 2022: 6.82%). The results include a significant increase in “Net interest income”, which reached EUR 86.6m (H1 2022: EUR 67.9m), as well as a positive non-recurring effect from settlement agreements concerning negative interest on corporate loan agreements.

“Net fee and commission income” fell slightly to EUR 8.8m (H1 2022: EUR 9.5m), while “Administrative expenses” were up year on year, reaching EUR 60.4m as at the end of the period under review (H1 2022: EUR 59.2m). Adjusted for non-recurring effects, the cost/income ratio (CIR) improved once more, finishing the first half at 52.01% (30 Jun. 2022: 53.44%).

3.3 Balance sheet movements

New loans totalling around EUR 833m were extended to customers in the first half of 2023. This was higher than the volume of new lending recorded a year earlier (H1 2022: EUR 699m), and the Bank mainly extended this vital funding to customers for infrastructure projects, housing construction and corporate finance.

The HYPO NOE Group’s balance sheet stood out for the very high quality of assets as at the end of the first six months of the year. The non-performing loan (NPL) ratio was 1.37% as at the reporting date (31 Dec. 2022: 1.02%). The Group’s consistently low NPL ratio reflects its business model, which favours low-risk business and corresponding credit approval practices, as well as the systematic approach taken by Intensive Care Management.

Risk provisions in the performing loan portfolio (Stages 1 and 2) were 11% lower compared with year-end 2022, at EUR 39.5m (31 Dec. 2022: EUR 44.4m), while total risk provisions (Stages 1-3 and purchased or originated credit impaired [POCI]) climbed to EUR 93.2m (31 Dec. 2022: EUR 90.9m).

Meanwhile, the Group has once again underscored its issuing capacity by placing two benchmark bonds and a retail bond in the year to date. This resulted in higher "Financial liabilities – AC" compared with 31 December 2022; this item amounted to EUR 13.7bn (31 Dec. 2022: EUR 13.4bn).

3.4 Segment performance

The HYPO NOE Group reported an excellent "Profit before tax" of EUR 66.5m for the first half of 2023. Even after adjustment for a non-recurring effect related to a provision, this very strong result underlined the rock-solid performance across the Group over the long term, driven by the Bank's decision to stand by its strategy even in the face of testing economic conditions. The operating segments all contributed to this result, as explained below.

Public Sector segment

The Public Sector segment accounted for EUR 12.2m of consolidated "Profit before tax" in the first six months of 2023 (H1 2022: EUR 9.7m) – a jump of more than 25% compared with the same period a year earlier.

Above all, there was a significant year-on-year increase in net interest income, which clearly highlighted the HYPO NOE Group's core competence of developing bespoke financing solutions for state governments, municipalities, local and regional authorities, and public agencies.

Net fee and commission income reflected this improvement in earnings compared to the same period in the previous year.

The rise in administrative expenses was due mainly to expected adjustments for inflation compared with the first half of 2022. This was offset to a degree by the reduced contribution to the resolution fund.

Segment assets were lower than a year earlier, which was largely the result of derivative valuations and the fall in basis adjustments owing to higher interest rates.

Real Estate

The Real Estate segment is one of the key pillars of the HYPO NOE Group's business model. It reported profit before tax of EUR 8.2m in the first half of 2023 (H1 2022: EUR 13.2m).

The year-on-year rise in segment assets resulted primarily from the acquisition of tranches of subsidised home loans for non-profit housing construction put out to tender by the State of Lower Austria. In contrast to its assets, Real Estate's net interest income fell, which reflects the segment's emphasis on such low-risk forms of financing, among other factors.

First-half results were not impacted by negative measurement effects on loan agreements mandatorily measured as at fair value, as was the case in the like period of 2022. A range of measures are being implemented with a view to achieving a steady and sustained reduction in the portfolio of these variable items, which are reported in the statement of profit or loss. The fall in other operating income mainly reflected a real estate transaction concluded in the first half of last year.

This segment likewise saw an uptick in administrative expenses, which was due in particular to anticipated adjustments for inflation compared with the first half of 2022.

Volatility in the real estate sector led to a year-on-year increase in impairment losses on financial assets – IFRS 9, ECL in the first six months of 2023.

Changes in market parameters in the real estate sector were the reason behind the impairment loss recognised on NOE Immobilien Development GmbH, an entity accounted for using the equity method, which led to a net loss on segment investments accounted for in this way.

Retail and Corporate Customers segment

Despite the challenging operating environment, Retail and Corporate Customers once again posted a strong contribution to the Group's earnings, with profit before tax of EUR 3.9m (H1 2022: EUR 6.3m).

The segment's net interest income rose year on year, which can be traced back to its focus on core products and a risk-aware approach to new lending. In spite of economic uncertainty and stricter criteria for approving housing loans based on a recommendation from the Financial Market Stability Board (FMSB), segment assets increased compared with the like period of 2022.

Retail and Corporate Customers was the principal contributor to Group "Net fee and commission income", generating EUR 7.5m (H1 2022: EUR 8.2m). The decrease compared with a year earlier reflects market uncertainty, with the securities and insurance businesses in particular reporting lower income, although there was a satisfactory gain in the payment transactions business.

Notwithstanding the increase in inflation, segment administrative expenses remained virtually unchanged on the first six months of 2022 thanks to efficiency gains. Lower contributions to the deposit insurance fund compared with H1 2022 also had a positive impact.

Impairment gains on financial assets – IFRS 9, ECL item for corporate customers had a positive effect on earnings, while the difficult market environment led to higher allocations to provisions for private customers. Overall, however, the impairment losses or gains on financial assets – IFRS 9, ECL item for the segment was only slightly negative.

Treasury & ALM segment

Thanks to forward-looking liquidity management, interest rate risk positioning within strict limits, and its ability to capitalise on existing market opportunities, Treasury & ALM reported a substantial year-on-year increase in profit before tax, to EUR 20.0m (H1 2022: EUR 14.1m).

Net interest income rose due to significant gains on maturity transformation, which were attributable to the sharp about-turn in the ECB's interest rate policy compared with the opening six months of 2022. The effects of implementing paragraph B5.4.6 of IFRS 9 had a positive effect on net interest income, which came in at EUR 0.5m in the period under review (H1 2022: net loss of EUR 4.2m), due to the revision of the estimated repayment dates for TLTRO liabilities.

The net losses on financial assets and liabilities (the segment reported net gains in the like period of 2022) were mainly due to measurement effects reported under net gains or losses on hedges. Measurement losses from foreign currency positions, which are recognised in other operating income, fell year on year, although this was offset by the measurement effects on forward transactions and derivatives reported under "Net gains or losses on financial assets and liabilities".

The segment completed two benchmark issues in the first half of 2023: a green senior preferred benchmark bond and a public sector benchmark covered bond. This underlines the positive perception of HYPO NOE Landesbank on the bond market and its good name among the foreign investment community. Thanks to active refinancing management, the scheduled repayment of EUR 600m of TLTRO financing was completed in June 2023.

3.5 Equity

Consolidated eligible capital in accordance with the CRR/CRD as amended was EUR 771.7m as at 30 June 2023 (31 Dec. 2022: EUR 772.8m).

Excess equity excluding buffers stood at EUR 461.1m as at 30 June 2023 (31 Dec. 2022: EUR 471.5m), compared with a capital requirement of EUR 310.6m (31 Dec. 2022: EUR 301.3m).

The Group's capital ratios stood at 19.88% at 30 June 2023 (31 Dec. 2022: 20.52%) and are composed entirely of CET1. Adjusted for the intrayear profit and prorating of non-accruable regulatory expenses (resolution and deposit insurance funds), the capital ratio would be around 21.20%.

No new or amended regulations came into force in the first six months of 2023 that will affect the HYPO NOE Group's eligible capital or capital requirement. As at 30 June 2023, the Group did not make any use of transitional arrangements or exercise any elective rights under transitional arrangements.

4 RISK REPORT

Descriptions of the objectives and methods of risk management, and details of material risks are contained in Note 8 RISK MANAGEMENT of the notes to the consolidated financial statements.

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.

HYPO NOE Landesbank had 26 branches in Lower Austria and Vienna as at 30 June 2023.

6 GROUP OUTLOOK

6.1 Economic environment

The global economic outlook remains downbeat. While China's decision to end its zero-Covid strategy at the end of 2022 has raised hopes of a recovery for the nation's economy – although this has been subdued so far – the prospects for the US economy remain modest for the time being. In the eurozone, business sentiment indicators recovered between autumn 2022 and March 2023. However, this development needs to be considered against the backdrop of the extreme pessimism that had taken hold by the end of 2022, meaning that it is not a particularly robust indicator of a new economic upswing. In fact, it is more likely that growth will be remain anaemic until 2024. The interest rate hikes instituted by central banks only have a negative impact on the economic cycle with some delay. After three years of very expansive fiscal policy, many countries now have limited financial leeway and the signs point to a consolidation in terms of fiscal policy. A good example of this is the recent, hard-won agreement in the US Congress regarding raising the debt ceiling. The compromise reached includes a significant cap on government spending for the next two years. Both monetary policy (due to the changed inflationary environment) and fiscal policy (due to the level of debt) appear to have been tightened. Given the currently weak economic phase, this is likely to make a rapid economic recovery even more difficult. In addition, major uncertainties persist, especially with regard to geopolitical developments, which could have an additional impact on the economy and inflation.

Meanwhile, the gradual easing of rapid inflation, as well as high wage increases thanks to the favourable situation on the labour market from the workers' point of view, should be regarded as positives. Accordingly, growth in real income is seen as improving significantly over the next 12 months and underpinning private consumption.

After two years of very sharp consumer price increases, a reversal of the prevailing trend started to make itself felt in autumn 2022. And headline inflation started to retreat from a very high starting level this year. In addition to favourable statistical base effects, this disinflation trend has so far been helped by a decline in commodity and energy prices, as well as an easing of supply chain problems. As a result, the headline inflation rate could fall towards 3% by the end of 2023, or even lower in a more favourable scenario. However, the picture for core inflation is less positive. Prices in the service sector, which have continued to rise until recently, are currently preventing a decline in core inflation, with no such contraction expected until later in the second half of 2023. In spite of a general easing of consumer price increases, it still remains to be seen whether inflation will in fact return to and stay at the ECB target rate over the next two years. A certain degree of scepticism is justified as things currently stand, particularly in view of the fact that a shortage of labour is expected on the labour market for some time to come, and that trade unions and employees still have a favourable bargaining position. As long as this situation persists, there is an underlying risk of a wage-price spiral.

While central banks left it relatively late to initiate the interest rate turnaround last year, the action taken was all the more decisive when it finally came. Interest rate increases of 525 and 425 basis points were recorded in the US and the eurozone, respectively, in the current interest rate cycle as at the end of July. The question of how restrictive monetary policy needs to be in order to maintain price stability is a controversial topic among experts and decision-makers at central banks. The turmoil in the US banking sector in March signals a threat to financial stability as interest rates continue to rise. In response, central banks are becoming more cautious and have to weigh up the need to combat inflation risks against the associated risks for the financial markets.

In the USA, the terminal rate was probably reached with a final increase of 25 bp in July that took the federal funds rate to 5.25-5.50%. The ECB also slowly approached the end of the current interest rate cycle when it increased its deposit rate to 3.75% in July. The European Central Bank is refusing to be drawn on whether another interest rate hike will be needed in the autumn, and will instead reach a decision based on the data available at that time. Interest rates are expected to peak at 4.0% in autumn at the latest. While it seems justifiable to expect a first interest rate cut in the USA at the start of 2024, the rates in the eurozone are expected to plateau for a longer period. The time for moderate downward interest rate adjustments is only seen as coming later next year.

In Austria, the rise in inflation triggered by the war in Ukraine will continue to significantly depress purchasing power and, in turn, consumption in 2023. That said, tax relief (including the elimination of fiscal drag) and negotiated wage increases and cost of living compensation payments may partly mitigate the situation. Following its strong showing in 2022, GDP growth is expected to limp along at 0.4% in 2023, significantly behind the eurozone (1.1%). According to an OeNB forecast (June 2023), Germany – which forms part of HYPO NOE Landesbank's core market – will post economic growth of just 0.2%. Though inflation is continuing to fall, it is still too high in the entire core market (Austria: 7.1%; Germany: 6.8%).

At the federal level, tax revenue will rise far more slowly in 2023 than in 2021 and 2022 because of low economic growth, but it will benefit indirectly from higher wage settlements and from forecast inflation via consumption taxes. On the spending side, cost-of-living measures will have to be funded, as will sharply increasing interest payments now that rates have risen again, and accommodative interest rate and monetary policies have come to an end. In parallel, these developments will have an impact on state government finances in the form of slower growth in revenue shares, increased interest expenses and higher expenditure owing to inflation.

The main uncertainties affecting the outlook for HYPO NOE Landesbank's core markets are the duration of the war in Ukraine, a possible worsening of the energy supply situation and further increases in energy prices in the winter of 2023/2024.

In terms of competition, the consolidation process witnessed in the European banking sector for many years has recently slowed in Austria. However, this fundamental trend is expected to continue and will also lead to mergers in other European countries where activity has been less pronounced. There are no immediate expectations as regards cross-border takeovers of major banks, as such a move would be made even more difficult by the extensive controls and requirements put in place by European authorities. In the Austrian banking sector, there are no signs at present of any major corporate mergers in the current financial year outside mergers of local primary banks.

6.2 Outlook for Group performance

Despite numerous challenges and an environment shaped by the continuing hostilities in Ukraine, the HYPO NOE Group once again posted outstanding results in the first half of 2023. The bank of the State of Lower Austria once again lived up to its responsibility for the future, with new lending up by more than 19% compared with the same period a year earlier.

Here, rising construction cost indexes, the ECB's interest-rate turnaround, and the expected introduction of broadly stricter lending criteria for home loans from mid-2022 are likely to continue to weigh on growth in the Austrian real estate financing sector – and will probably continue to do so in future. Thanks to the HYPO NOE Group's diversified business model, this foreseeable decline in business has been successfully offset in the year to date, thanks in particular to a focus on financing solutions for public sector and government-linked clients. In doing so, the business model once again proved its worth thanks to its focus on low-risk infrastructure and housing finance. Responsible interest rate and liquidity management served to further underpin the ongoing success of the HYPO NOE Group.

HYPO NOE Landesbank is stepping up to tackle one of the most pressing challenges of our times: climate change. The Bank is partnering ten other flagship companies which have signed up to the klimaaktiv climate programme that forms part of the Austrian climate initiative, committing them to a reduction of over 50% in CO_2 emissions and an increase of 22% in energy efficiency by 2030. As a regional bank, HYPO NOE Landesbank has always been committed to sustainability, reflecting a sense of responsibility to its region and for promoting local economic development since its formation in 1888. And as a corporate social responsibility pioneer, which began establishing a formal sustainability programme as early as 2013, the Bank is aware of its duty to current and future generations.

It monitors the social and environmental compatibility of its own banking business, and investors can do likewise in connection with its successful refinancing operations. In January 2023, HYPO NOE Landesbank's third EUR 500m green senior preferred benchmark bond issue, followed by a EUR 500 million public sector covered benchmark bond issue, was placed with Austrian and foreign investors. The high level of confidence in HYPO NOE Landesbank's solid standing was demonstrated impressively by an increase in fixed-term deposits in the retail business, and another successful issue of an unsecured retail bond through the Bank's own branch network as an additional refinancing product.

A large part of the refinancing needs for 2023 have already been covered as a result, although the scheduled repayment of EUR 600 million relating to the TLTRO programme had to be offset in June 2023. Depending on the performance in the lending business over the remainder of the year, the focus of any capital market refinancing in the second half will be on another possible issue under the uniform amended Austrian Covered Bond Act. Maintaining the high level of deposits built up over recent years will remain an objective.

The increased administrative expenses for HYPO NOE Landesbank that inevitably accompany high inflation will be countered by further efficiency gains and process optimisation, together with further honing of the business model and maintenance of the current strategy of risk-aware, sustainable growth. HYPO NOE Landesbank's highly committed workforce and its exceptionally sound capital base, with a CET1 ratio of 19.88%, will be the main props of its continued success in a volatile and, in part, difficult business environment.

St. Pölten, 8 August 2023
The Management Board

Wolfgang Viehauser
Management Board Member Markets and
Speaker of the Board

Udo Birkner
Management Board Member Finance,
Risk & Operations

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023
IN ACCORDANCE WITH IFRS
HYPO NOE GROUP

1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Gains/losses

EUR '000	Notes	H1 2023	H1 2022
Interest and similar income measured using the effective interest method		226,791	123,764
Interest and similar income not measured using the effective interest method		44,238	81,506
Interest and similar expense		-184,443	-137,326
Dividend income		26	-
Net interest income	**4.1.1**	**86,612**	**67,944**
Fee and commission income		9,813	10,315
Fee and commission expense		-996	-847
Net fee and commission income	**5.1**	**8,818**	**9,468**
Net measurement losses		-2,606	-643
Net gains on derecognition of financial assets		256	67
Net losses on financial assets and liabilities	**4.1.2**	**-2,351**	**-576**
Other operating income	5.2	35,743	10,023
Other operating expense	5.2	-1,127	-6,004
Administrative expenses	5.3	-60,369	-59,165
Impairment losses/gains on financial assets – IFRS 9 ECL	4.4.4	-2,056	2,583
Net gains on investments accounted for using the equity method		1,202	1,227
Profit before tax		**66,473**	**25,500**
Income tax expense	7.1	-15,665	-6,068
Profit for the period		**50,808**	**19,432**
Non-controlling interests	3.2	246	-314
Profit attributable to owners of the parent		**51,054**	**19,118**

Other comprehensive income

EUR '000	Notes	H1 2023	H1 2022
Profit for the period		**50,808**	**19,432**
Changes in valuation that will not be reclassified to profit or loss		**58**	**-89**
Equity instruments – FVOCI	4.1.2	58	9
Actuarial losses		-	-99
Changes in valuation that will be reclassified subsequently to profit or loss		**-964**	**-3,231**
Debt instruments – FVOCI	4.1.2	-867	-2,931
Debt instruments – FVOCI reclassified to profit or loss	4.1.2	-97	-300
Other comprehensive income		**-906**	**-3,320**
Total comprehensive income		**49,902**	**16,112**
Non-controlling interests	3.2	246	-314
Comprehensive income attributable to owners of the parent		**50,148**	**15,798**

2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

EUR ’000	Notes	30 Jun. 2023	31 Dec. 2022
Cash and balances at central banks	4.2	362,353	184,915
Financial assets – HFT	4.2	148,678	124,809
Financial assets – mandatorily FVTPL	4.2	117,028	122,172
Financial assets – FVOCI	4.2	226,609	236,890
Financial assets – AC	4.2	14,191,566	13,899,591
Positive fair value of hedges (hedge accounting)	4.5.2	364,399	388,385
Investments accounted for using the equity method	9.1	34,229	33,724
Investment property		24,057	24,671
Intangible assets		531	474
Property, plant and equipment		63,125	63,826
Current tax assets	7.2	17,601	17,719
Deferred tax assets	7.2	323	325
Other assets	6.2	32,978	23,751
Total assets		**15,583,477**	**15,121,252**

Liabilities

EUR ’000	Notes	30 Jun. 2023	31 Dec. 2022
Financial liabilities – HFT	4.3	130,050	103,065
Financial liabilities – FVO	4.3	5,463	5,239
Financial liabilities – AC	4.3	13,720,461	13,362,690
Negative fair value of hedges (hedge accounting)	4.5.2	683,657	683,653
Provisions	6.1	31,613	74,970
Current tax liabilities	7.3	16,073	6,741
Deferred tax liabilities	7.3	25,023	22,613
Other liabilities	6.2	135,664	71,711
Equity	**3.1**	**835,473**	**790,571**
Equity attributable to owners of the parent	3.1	827,009	781,862
Non-controlling interests	3.2	8,464	8,710
Total equity and liabilities		**15,583,477**	**15,121,252**

3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 Jun. 2023 EUR '000	1 Jan. 2023	Profit for the period	Reversals	Dividends paid	Other comprehen-sive income	30 Jun. 2023
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	533,782	51,054	6	-5,000	-	579,842
Other reserves composed of:	**4,275**	**-**	**-6**	**-**	**-906**	**3,362**
Actuarial losses	-299	-	-	-	-	-299
Debt instruments – FVOCI	4,214	-	-	-	-964	3,250
Equity instruments – FVOCI	359	-	-6	-	58	412
Equity attributable to owners of the parent	**781,862**	**51,054**	**-**	**-5,000**	**-906**	**827,009**
Non-controlling interests	8,710	-246	-	-	-	8,464
Equity	**790,571**	**50,808**	**-**	**-5,000**	**-906**	**835,473**

30 Jun. 2022 EUR '000	1 Jan. 2022	Profit for the period	Reversals	Dividends paid	Other comprehen-sive income	30 Jun. 2022
Share capital	51,981	-	-	-	-	51,981
Capital reserves	191,824	-	-	-	-	191,824
Retained earnings	490,427	19,118	-	-3,500	-	506,045
Other reserves composed of:	**4,610**	**-**	**-**	**-**	**-3,320**	**1,291**
Actuarial losses	-3,694	-	-	-	-99	-3,792
Debt instruments – FVOCI	7,903	-	-	-	-3,231	4,672
Equity instruments – FVOCI	401	-	-	-	9	411
Equity attributable to owners of the parent	**738,842**	**19,118**	**-**	**-3,500**	**-3,320**	**751,140**
Non-controlling interests	8,501	314	-	-	-	8,815
Equity	**747,344**	**19,432**	**-**	**-3,500**	**-3,320**	**759,956**

4 CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	Notes	30 Jun. 2023	30 Jun. 2022
Cash and cash equivalents at end of previous period	**4.2**	**184,915**	**1,409,248**
Profit for the period		**50,808**	**19,432**
Adjustments for interest income and expense	4.1.1	-86,612	-67,944
Non-cash items from operating activities		**-9,119**	**-66,434**
Depreciation, amortisation, impairment and write-ups on investment property, intangible assets and property, plant and equipment		2,716	2,717
Allocations to and reversals of provisions and risk provisions	4.4.4	-26,680	2,437
Net measurement gains on financial assets and liabilities	4.1.2	2,822	576
Other adjustments		12,022	-72,164
Changes in assets and liabilities due to operating activities		**103,742**	**456,878**
Financial assets – AC		-294,883	494,377
Financial assets – mandatorily FVTPL		5,725	12,579
Financial assets – FVOCI		9,225	110,420
Other operating assets		-24,383	-7,837
Financial liabilities – AC		357,617	-146,169
Other operating liabilities		50,442	-6,492
Payments for taxes, interest and dividends		**125,353**	**59,758**
Income tax paid		-3,628	-3,608
Interest received		286,367	210,855
Interest paid		-158,139	-148,186
Dividends on FVOCI investments received	4.1.1	26	27
Dividends on investments accounted for using the equity method received		697	670
Dividends on immaterial equity investments received		30	-
Cash flows from operating activities		**184,172**	**401,689**
Proceeds from sale of/redemption of:		**13**	**8,200**
Property, plant and equipment, intangible assets and investment property		13	8,200
Purchase of:		**-1,572**	**-2,330**
Investments (accounted for using the equity method/FVOCI/immaterial investments in other assets)		-40	-1,470
Property, plant and equipment, intangible assets and investment property		-1,532	-860
Cash flows from investing activities		**-1,559**	**5,869**
Dividends paid		**-5,000**	**-3,500**
Repayment of lease liabilities		**-175**	**-445**
Cash flows from financing activities		**-5,175**	**-3,945**
Net increase in cash and cash equivalents		**177,438**	**403,613**
Cash and cash equivalents at end of period		**362,353**	**1,812,861**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023 IN ACCORDANCE WITH IFRS HYPO NOE GROUP

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 2023 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 2022 while taking account of new standards which are mandatory for financial years beginning on or after 1 January 2023.

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 annual financial statements as at 31 December 2022. The interim consolidated financial statements were neither subjected to a full audit nor were they reviewed by independent auditors.

1.2 Estimation uncertainty and judgements

Estimation uncertainties and judgements are denoted below by the symbol .

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

- Measurement of financial instruments, associates and joint ventures
- Assessment of the ECB’s monetary policy measures (use of TLTRO instruments)
- Evaluation of the transfer of financial instruments in accordance with paragraph 3.2.4 IFRS 9
- Determining impairment losses and gains on financial assets
- Defining 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
- Determination of the credit-adjusted effective interest rate for POCI assets

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

1.3 New and amended regulations

New and amended standards	Applicable from	Effect
Disclosure of Accounting Policies – Amendment to IAS 1	1 Jan. 2023	Immaterial
Definition of Accounting Estimates – Amendment to IAS 8	1 Jan. 2023	Immaterial
IFRS 17 Insurance Contracts	1 Jan. 2023	None
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendment to IAS 12	1 Jan. 2023	None
IFRS 17 Insurance Contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1 Jan. 2023	None
New and amended standards adopted but not yet applied		
International Tax Reform – Pillar Two Model Rules: Mandatory Relief for Accounting for Deferred Taxes from Global Minimum Taxation – Amendments to IAS 12	1 Jan. 2023 *	None
Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7	1 Jan. 2024 *	None
Classification of Liabilities as Current or Non-current – Amendment to IAS 1	1 Jan. 2024 *	None
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	1 Jan. 2024 *	None

*Mandatory application not yet endorsed by the EU

2 SEGMENT INFORMATION

The Bank's segment reporting is in accordance with IFRS 8. In its role as the HYPO NOE Group's most senior executive body, the Management Board regularly monitors changes in 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.

Segment reporting is derived from the profit centre accounting of HYPO NOE Landesbank and consolidated 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 segment reporting does not include gross figures for this item.

Where possible, individual items under administrative expenses are allocated directly. Components that cannot be directly allocated are attributed to the various segments in a cost-reflective allocation procedure appropriate to the management of a bank.

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

Analysis by geographical area 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 proportion to any benefits.

Disclosures on profit or loss and the carrying amounts of investments accounted for using the equity method in each segment, in accordance with paragraphs 23 and 24 IFRS 8, are provided in Note 9.1 Scope of consolidation.

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. 2023, EUR ’000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Group
Net interest income	19,767	20,664	19,095	28,381	-1,294	86,612
Net fee and commission income/expense	859	554	7,484	-71	-8	8,818
Net gains or losses on financial assets and liabilities	-332	-52	562	-3,398	870	-2,351
Net other operating income	2,220	619	639	2,965	28,173	34,617
Net gains on investments accounted for using the equity method	775	-170	37	560	-	1,202
Administrative expenses	-11,825	-10,659	-23,776	-8,463	-5,646	-60,369
Impairment gains/losses on financial assets – IFRS 9, ECL	745	-2,711	-159	49	19	-2,056
Profit before tax	**12,210**	**8,245**	**3,882**	**20,022**	**22,114**	**66,473**
Income tax expense						-15,665
Profit for the period						**50,808**
Segment assets	**6,669,117**	**3,552,695**	**2,256,029**	**2,959,582**	**146,055**	**15,583,477**
Segment liabilities	**2,084,118**	**352,554**	**2,258,112**	**9,917,718**	**970,975**	**15,583,477**

Segmental analysis as at 30 Jun. 2022, EUR ’000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Group
Net interest income/expense	16,479	21,437	18,648	14,268	-2,887	67,944
Net fee and commission income	581	566	8,197	106	17	9,468
Net gains or losses on financial assets and liabilities	-752	-1,121	841	2,512	-2,056	-576
Net other operating income/expense	2,229	1,479	833	4,796	-5,319	4,019
Net gains on investments accounted for using the equity method	783	97	-	347	-	1,227
Administrative expenses	-10,715	-9,290	-23,693	-7,995	-7,472	-59,165
Impairment gains/losses on financial assets – IFRS 9, ECL	1,073	32	1,438	27	13	2,583
Profit or loss before tax	**9,679**	**13,200**	**6,263**	**14,062**	**-17,704**	**25,500**
Income tax expense						-6,068
Profit for the period						**19,432**
Segment assets	**6,947,090**	**3,075,332**	**2,158,494**	**4,102,211**	**141,864**	**16,424,992**
Segment liabilities	**2,086,103**	**373,928**	**2,436,266**	**10,635,296**	**893,399**	**16,424,992**

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). Customers are offered conventional loans, and there is an emphasis on custom financing models in the segment’s home market. In addition, income generated by the administration of subsidised homebuilding loans, a service provided for the public sector by HYPO NOE Landesbank, 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.

Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H, which is accounted for using the equity method, is also allocated to this segment.

The Public Sector segment has a major business relationship with a customer in the meaning of paragraph 34 IFRS 8. The customer in question is a public authority, and the services provided mainly take the form of leases, as well as lending and deposit taking. Dealings with the authority and its allocable group entities, in accordance with the definition of major investments and without recourse to the exemption for sub-groups generated net interest income of EUR 12.8m during the reporting period. This figure comprises EUR 5.3m from direct business relationships with the customer, EUR 1.6m from direct business relationships with allocable group members, and EUR 5.9m 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 real estate leases for the public sector and public agencies, for retail customers and for SMEs, which are allocated to the relevant segments.

The HYPO NOE Group has a long tradition of providing finance for cooperative and 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. Due to the high collateral coverage ratio, the long duration of contracts and resulting low probability of default, this line of business is a stable source of long-term earnings. In addition, HYPO NOE Landesbank has recently won several contracts put out to tender by the State of Lower Austria for state-guaranteed homebuilding loans. These loans are earmarked primarily for affordable housing and homes for young people.

In addition, the segment provides finance for commercial housing construction projects, other real estate developments devoted predominantly to residential use, as well as existing properties (rental apartment buildings). In the case of new builds, the apartments constructed are either held in the portfolio and let to private individuals, or sold off individually as owner-occupier properties. For the most part, financing is provided to satisfy housing demand and is limited to the Group's home market of Austria.

Activities in this segment also include large-scale commercial real estate transactions in Austria and in selected foreign markets, with financing provided for real estate earmarked for residential and commercial use. In Austria, the segment focuses on flagship and other large-scale projects valued at between EUR 20m and EUR 40m. The segment plans to extend its operations in selected areas – in its foreign business, the emphasis will be on leveraging the potential to generate additional earnings compared with the domestic market, as well as ensuring a balanced risk-return ratio. Equity ratios are higher and guarantee mechanisms are more highly developed in the foreign business. Outside Austria, the costs for entering collaterals in property registers are negligible, meaning that the barriers to entry are low. The segment will concentrate on cover-pool-eligible financing in EU markets with good or very good ratings.

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, EWU Wohnbau Unternehmensbeteiligungs-GmbH, and VIVITliving GmbH, all three of which are accounted for using the equity method.

2.3 Retail and Corporate Customers segment

This segment's core competences focus on banking transactions with retail, self-employed and corporate 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 regarding loans and subsidies, which ensures sound advice and rapid processing for customers.

In the retail business, the strategic focus is on the core product of home construction finance. Regarding add-on products, the segment proactively enters into partnerships with the goal of further increasing net fee and commission income. These efforts are centred on digitalisation and achieving efficiency gains by implementing numerous proprietary innovations.

The comprehensive range of services provided to corporate customers is geared towards ensuring healthy and sustained expansion of the Bank's business in its core market of Lower Austria and Vienna, as well as in Austria as a whole and in Germany. The focus is on small and medium-sized enterprises (SMEs) as well as large companies. A specialised team develops structured product solutions, in particular subsidised loans and export finance, and provides advice on payment transactions.

The insurance brokerage business of HYPO NOE Versicherungsservice GmbH (HVS) was included in this segment in the comparative period (1 Jan.-30 Jun. 2022). This company was disposed of during the 2022 financial year.

2.4 Treasury & ALM segment

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

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

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

Close cooperation with institutional customers is central to the HYPO NOE Group's business model. As part of its investor relations activities, the Bank nurtures these long-standing, trust-based partnerships on an ongoing basis by actively servicing its direct relationships with other banks, insurance companies, pension funds, utilities and investment companies. The resulting focus is on relations with European partners, although in recent years there has been growing interest from investors in certain countries outside Europe.

For regulatory reasons, the segment's trading activities are limited 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.

Niederösterreichische Vorsorgekasse AG, an entity accounted for using the equity method, is also allocated to the Treasury & ALM segment.

2.5 Corporate Center

The Corporate Center segment serves to reconcile the operating segments' results with the consolidated totals. It is used for elimination of intra-Group income and expenses 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 the segment reporting level wherever possible. This approach is not applied to impairments or restructuring gains or losses, which are allocated directly to the segments in the same way as the corresponding assets.

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

- Cost of cash collaterals for customer derivatives contracts in the absence of collateral agreements:
  Where customer derivatives are not secured by collateral agreements, the HYPO NOE Group does not receive collateral from customers but must post cash collaterals for the related hedges. Liquidity costs are incurred when refinancing the open collateral position. Treasury & ALM is responsible for managing all collateral positions, while the related refinancing costs for the open collateral positions are reported under Corporate Center. Under the current approach, collateral requirements for derivatives contracts with customers are met by means of pricing or collateral agreements, and are therefore not included in this asymmetrical allocation.
- Adverse effects of structural contributions on consumer loans arising from negative variable interest indicators (only applicable to the comparative period, 1 Jan.-30 Jun. 2022).
- 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 reporting period includes a charge of EUR 0.6m (H1 2022: charge of EUR 0.8m) in asymmetrical allocations arising from collateral expenses. The comparative period (1 Jan.-30 Jun. 2022) includes the adverse effects of structural contributions on consumer loans arising from negative variable interest indicators, amounting to EUR 1.9m.

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

Net gains on financial assets and liabilities in the reporting period were EUR 0.9m (H1 2022: net losses of EUR 2.1m). These were attributable to measurement of the HETA contingent additional purchase price. Details can be found in Note 4.6 Fair value disclosures.

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

Administrative expenses allocated to the Corporate Center include intra-year accruals in respect of the contribution to the deposit insurance and resolution funds amounting to an expense of EUR 4.4m (H1 2022: expense of EUR 5.9m). This represents 50% of the total annual contribution; the remaining 50% is allocated to the operating segments.

Net other operating income in the Corporate Center segment in the first half of 2022 included recognition of a provision for negative interest on corporate loans; in the first half of 2023 the same provision was reversed. See Note 6.1 Provisions for further information. The same item includes compensation for the services of the Retail and Corporate Customers segment in connection with internal customers, recognised as an expense of EUR 0.5m (H1 2022: expense of EUR 0.6m).

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

3 EQUITY AND CONSOLIDATED OWN FUNDS

3.1 Equity

EUR '000	30 Jun. 2023	31 Dec. 2022
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	3,362	4,275
Retained earnings	579,842	533,782
Equity attributable to owners of the parent	**827,009**	**781,862**
Non-controlling interests	8,464	8,710
Equity	**835,473**	**790,571**

3.2 Non-controlling interests

The table below provides an overview of the share of earnings attributable to non-controlling interests.

EUR '000	H1 2023	H1 2022
FORIS Grundstückvermietungs Gesellschaft m.b.H.	7	2
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	37	-179
LITUS Grundstückvermietungs Gesellschaft m.b.H.	4	-6
PINUS Grundstückvermietungs Gesellschaft m.b.H.	59	-13
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	2	-54
Adoria Grundstückvermietungs Gesellschaft m.b.H.	-5	13
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	38	1
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	1	-
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	-3	-9
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	111	-57
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	-6	-12
Non-controlling interests	**246**	**-314**

3.3 Reconciliation of equity

EUR '000	30 Jun. 2023	31 Dec. 2022
Equity according to IFRS financial statements	**835,473**	**790,571**
Divergence in scope of consolidation (accounting vs. regulatory treatment)	1,871	1,600
Equity according to FINREP template 51	**837,344**	**792,171**
Deferred taxes on untaxed reserves	-3,747	-3,903
Prudent valuation (simplified approach)	-586	-544
Intangible assets	-531	-474
Prudential backstop	-942	-711
Ineligible minority interests	-8,464	-8,710
Intra-year change in revaluation surplus, profit and dividend	-51,377	-5,000
Eligible capital	**771,698**	**772,830**

3.4 Consolidated own funds and regulatory own funds requirement

Under Regulation (EU) No. 575/2013 (Capital Requirements Regulation [CRR]) as amended, including latterly by Regulation (EU) No. 2022/2036, and related EBA delegated regulations, as well as Directive 2013/36/EU on access to the activity of credit institutions (Capital Requirements Directive [CRD]) as last amended by Directive (EU) No. 2021/338, which is currently being transposed by way of the Austrian Banking Act and various national orders, since 2014 it has been necessary to determine banks' consolidated own funds and their consolidated regulatory own funds requirements under IFRS, as well as the regulatory scope of consolidation.

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

EUR '000	CRR/CRD IV 30 Jun. 2023	CRR/CRD IV 31 Dec. 2022
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	**637,210**	**638,012**
Retained earnings	523,041	522,979
Other reserves	104,844	104,744
Accumulated comprehensive income	9,326	10,290
Prudential filters: adjustments due to the prudent valuation requirements	-586	-544
Prudential backstop: insufficient coverage of non-performing exposures	-942	-711
Intangible assets	-531	-474
CET1 capital	771,698	772,830
Additional Tier 1 capital	-	-
Tier 1 capital	**771,698**	**772,830**
Deductions due to investments, pursuant to Arts. 36 and 89 CRR	-	-
Eligible Tier 1 capital	**771,698**	**772,830**
Eligible supplementary capital (after deductions)	**-**	**-**
Total eligible capital	**771,698**	**772,830**
Minimum capital requirements	**310,579**	**301,300**
Excess capital	**461,118**	**471,530**
Coverage ratio	248.47%	256.50%
Tier 1 capital ratio in accordance with Art. 92(2)(b) CRR	19.88%	20.52%
Total capital ratio in accordance with Art. 92(2)(c) CRR	19.88%	20.52%
Own funds requirement incl. all buffer requirements	12.67%	12.54%
Leverage ratio in accordance with Art. 92(2)(d) CRR	5.05%	5.14%
Leverage ratio requirement (Pillar 1)	3.00%	3.00%

Taking account of the interim profit and prorating of the contributions to the resolution and deposit insurance funds, which have already been taken in full to profit or loss, and applying a pro rata dividend, the pro forma Tier 1 capital ratio would be around 21.20%.

Changes in the risk-weighted measurement basis and the resulting own funds requirement are shown below.

EUR '000	CRR/CRD IV 30 Jun. 2023	CRR/CRD IV 31 Dec. 2022
Total leverage ratio exposure	15,277,812	15,026,265
Risk-weighted exposure measure	3,534,703	3,409,434
Minimum own funds requirement for credit risk (8%)	282,776	272,755
Own funds requirement for open currency positions	-	-
Own funds requirement for operational risk	25,482	25,482
Own funds requirement for CVA risk	2,321	3,063
Total own funds requirement	**310,579**	**301,300**

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 2023	H1 2022
Interest and similar income measured using the effective interest method	**226,791**	**123,764**
Financial assets – FVOCI	3,554	4,354
Financial assets and liabilities – AC	186,686	104,586
Current finance lease income	36,550	14,824
Interest and similar income not measured using the effective interest method	**44,239**	**81,507**
Financial assets and liabilities – HFT	13,024	34,159
Financial assets – mandatorily FVTPL	1,248	432
Hedges	28,865	45,573
Other interest and similar income	1,101	1,343
Interest and similar expense	**-184,443**	**-137,326**
Financial assets and liabilities – HFT	-11,775	-33,355
Financial liabilities – AC	-103,686	-56,813
Hedges	-68,981	-47,156
Lease liabilities in accordance with IFRS 16	-2	-2
Dividend income	**26**	**-**
Net interest income	**86,612**	**67,944**

4.1.2 Net gains or losses on financial assets and liabilities

EUR '000	H1 2023	H1 2022
Net gains or losses on:	**-2,606**	**-643**
Disposal	**130**	**3,282**
Financial assets – AC	4	2,892
Financial assets – FVOCI	126	390
Measurement	**-593**	**-7,795**
Financial assets and liabilities – AC	476	295
Net losses due to non-substantial modification	-31	-320
Direct write-offs/receipts from written-off assets	438	1,224
Net gains or losses on derecognition of assets	68	-609
Financial assets – mandatorily FVTPL	582	-4,923
Financial assets and liabilities – HFT	-1,427	-3,694
Financial assets and liabilities – FVO	-224	527
Hedging relationships	**-2,144**	**3,870**
Net losses on hedged transactions (fair value hedges)	-2,302	-81,330
Net gains on hedges (fair value hedges)	159	85,200
Net gains arising from the derecognition of financial assets	**256**	**67**
Financial assets – AC	256	67
Total	**-2,351**	**-576**

EUR '000	H1 2023			
Detailed disclosures: non-substantial modifications	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Net gains or losses due to non-substantial modification of financial assets	22	-52	-	**-31**
Measures in connection with the Covid-19 pandemic	-	-	-	**-**
Amortised cost before non-substantial modification of financial assets	40,407	17,108	371	**57,886**

EUR '000	H1 2022			
Detailed disclosures: non-substantial modifications	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Net gains or losses due to non-substantial modification of financial assets	-258	-62	-	**-320**
Measures in connection with the Covid-19 pandemic	9	-12	-	**-3**
Amortised cost before non-substantial modification of financial assets	75,452	36,447	642	**112,542**

The gross carrying amount of “Financial assets – AC” affected by non-substantial modifications that were transferred to Stage 1 during the period was EUR 31,846thsd as at 30 June 2023 (30 Jun. 2022: EUR 564thsd).

The net measurement gain on “Financial assets – mandatorily FVTPL” chiefly arose from change in the HETA contingent additional purchase price, as well as from other financial assets measured at fair value and reported under “Financial assets – mandatorily FVTPL”. Details can be found in Note 4.6 Fair value disclosures.

The contractual outstanding amount of written-off financial assets that are subject to execution measures was EUR 14,531thsd as at 30 June 2023 (31 Dec. 2022: EUR 14,838thsd).

4.2 Financial assets

The following table presents the HYPO NOE Group’s financial assets classified according to paragraph 6 IFRS 7:

EUR ’000	30 Jun. 2023	31 Dec. 2022
Cash and balances at central banks	**362,353**	**184,915**
Cash on hand incl. demand deposits	26,826	21,749
Balances at central banks	335,526	163,166
Financial assets – HFT	**148,678**	**124,809**
Positive fair value of interest rate derivatives	71,291	79,980
Positive fair value of foreign exchange derivatives	77,387	44,829
Financial assets – mandatorily FVTPL	**117,028**	**122,172**
Loans	47,024	52,575
General governments	1,159	1,369
Other financial corporations	721	871
Non-financial corporations	31,846	33,672
Households	13,298	16,662
Bonds	70,005	69,597
General governments	35,253	34,847
Banks	34,751	34,750
Financial assets – FVOCI	**226,609**	**236,890**
Bonds	224,596	234,945
General governments	158,635	181,849
Banks	56,254	50,334
Other financial corporations	9,707	2,762
Equity instruments	2,013	1,945
Other financial corporations	1,517	1,500
Non-financial corporations	459	445
Financial assets – AC	**14,191,566**	**13,899,591**
Loans	12,668,112	12,524,409
General governments	4,050,561	4,318,953
Banks	508,708	440,978
Other financial corporations	179,509	214,694
Non-financial corporations	5,521,425	5,148,954
Households	2,407,908	2,400,830
Bonds	1,523,454	1,375,182
General governments	535,093	506,477
Banks	728,903	616,820
Other financial corporations	219,497	210,797
Non-financial corporations	39,961	41,089
Total	**15,046,233**	**14,568,377**

4.2.1 Supplementary information concerning financial assets

Transfer of financial assets

The HYPO NOE Group engages in transactions that result in asset transfers. Assets transferred within the Group either remain on the statement of financial position or are derecognised in accordance with paragraph B3.2.1 IFRS 9. Transferred assets are derecognised if substantially all risks and rewards incidental to ownership of the assets are also transferred.

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

	30 Jun. 2023		31 Dec. 2022	
EUR '000	Transferred assets	Related liabilities	Transferred assets	Related liabilities
Financial assets – AC	**87,235**	**87,235**	**86,921**	**86,921**
Loans	87,235	87,235	86,921	86,921
Total	**87,235**	**87,235**	**86,921**	**86,921**

At the HYPO NOE Group, transferred financial assets that are not derecognised mainly relate to loans, as well as pension and securities-lending transactions.

There were no pension or securities-lending transactions as at the end of the reporting period. Transferred assets in accordance with paragraph 3.2.4 IFRS 9 in conjunction with paragraph 42A IFRS 7 consisted solely of loans. The entitlement to regular cash flows from a project loan was divested in order to repay liabilities arising from refinancing; however, the Group retained substantially all of the associated risks and rewards (valid lease agreement).

4.3 Financial liabilities

Estimation uncertainties and judgements

Financial liabilities arising from the TLTRO programme are recognised at amortised cost under "Financial liabilities – AC", in accordance with paragraph 4.2.1 IFRS 9, and amounted to EUR 335,353thsd as at 30 June 2023 (31 Dec. 2022: EUR 919,090thsd). Interest expense arising from these liabilities is reported under "Financial assets – AC", as negative interest expense under the "Interest and similar expenses" item for the first half of 2023, amounting to EUR 11,018thsd (H1 2022: EUR 5,511thsd reported as negative interest expense under "Interest and similar income measured using the effective interest method"); see Note 4.1.1 Net interest income, above.

Of the instalments with a nominal value of EUR 934,000thsd as at 31 December 2022, a further EUR 600,000thsd expired on 28 June 2023, meaning that the Bank continued to hold an amount of EUR 334,000thsd up to the various expiry dates as at the end of the reporting period. As at 30 June 2023 the effective interest rate was 2.41%.

The following table lists the HYPO NOE Group's financial liabilities, broken down into financial instrument classes, in accordance with paragraph 6 IFRS 7:

EUR '000	30 Jun. 2023	31 Dec. 2022
Financial liabilities – HFT	**130,050**	**103,065**
Negative fair value of interest rate derivatives	53,115	59,944
Negative fair value of foreign exchange derivatives	76,935	43,121
Financial liabilities – FVO	**5,463**	**5,239**
Other financial liabilities	5,463	5,239
Financial liabilities – AC	**13,720,461**	**13,362,690**
Savings and savings-equivalent deposits	1,209,762	1,207,526
Deposits	4,063,982	4,214,540
Banks	1,649,137	2,087,011
General governments	823,262	587,957
Other financial corporations	192,307	177,622
Non-financial corporations	715,705	668,820
Households	683,571	693,130
Bonds in issue	8,446,718	7,940,624
Covered bonds	1,437,680	1,429,479
Municipal bonds	3,260,392	3,257,267
Other bonds	3,748,646	3,253,877
Total	**13,855,974**	**13,470,993**

"Financial liabilities – FVO" comprises a liability related to the HETA contingent additional purchase price. Details can be found in Note 4.6.2 Fair value hierarchy: Level 3 disclosures.

4.3.1 Contingent liabilities and unutilised facilities

EUR '000	30 Jun. 2023	31 Dec. 2022
Guarantees and financial guarantee contracts	56,326	58,924
Liabilities arising from guarantees and provision of collateral	**56,326**	**58,924**

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

EUR '000	30 Jun. 2023	31 Dec. 2022
Unutilised facilities	1,187,217	1,403,880

4.4 Credit risk and risk provisions

4.4.1 Credit risk

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

- Counterparty risk
- Replacement risk
- Issuer risk
- Investment risk
- Foreign exchange risk from a customer's perspective (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 the concentration risk present in credit risk.

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

Sustainability risk is currently rapidly growing in importance, and is therefore recognised as a separate key risk sub-category. In the interests of responsible and sustainable business practices, the HYPO NOE Group has sought to limit and manage the sustainability risks associated with the loan approval and review processes by introducing inclusion and exclusion criteria, and sensitive environmental and social sectors that call for greater care. It also uses an environmental and social governance (ESG) and reputational risk questionnaire for real estate and corporate customers. ESG indicators in the form of a corruption index and rule of law indicators are also applied to the country ratings. The incorporation of sustainability aspects in the loan approval, internal capital adequacy assessment process (ICAAP) and credit risk procedures is ongoing.

Principles derived from the Group's strategic targets shape the acceptance and management of individual credit risks. These rules 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
- Appropriate limiting and monitoring of credit risk on the basis of the pre-established risk tolerance
- Regular, goal driven reporting
- Use of methods and processes tailored to the 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, and monitoring it involves 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:

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

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 ruling at that time. If the current price is unfavourable for the Bank, the replacement transaction results in costs or losses. 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 again exists from the time of conclusion of the transaction until its termination, i.e. over its entire lifetime.

Risk concentrations

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 portfolio in question is essentially granular, and partly comprises loans to sovereigns, state governments and local authorities where the emphasis is on finance for social and public infrastructure, and for subsidised home loans.

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 thus an overarching category of risk, which may affect both creditors and borrowers but cannot be influenced or managed by either. Other elements of country risk are transfer and conversion risk, which represent 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 confining 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 Risk Management Committee (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).

In addition, the HYPO NOE Group 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 non-performing loan (NPL) ratio is a key performance indicator for banks in connection with financial assets in default. The Group's NPL ratio stood at 1.37% at 30 June 2023 (31 Dec. 2022: 1.02%). NPL coverage for the Group – defined as total Stage 3 risk provisions, taking account of collaterals, divided by the sum of the gross carrying amounts of NPLs – was 75.14% at 30 June 2023 (31 Dec. 2022: 89.01%).

Effects of current crises

In 2022 a review was carried out to determine whether borrowers have been materially and directly impacted by the war in Ukraine. The HYPO NOE Group does not have any direct outstanding loans in Russia or Ukraine. The impact of the current crises (such as rising energy prices and interest rates, and supply chain disruption) were also analysed and were taken into account by the rating review. The same basic approach was retained for the first half of 2023.

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 primary business objectives and are supportive of its strategic alignment. Other control levers include measuring investments against internal models, and acting on the results of the analysis, as well as constantly monitoring existing holdings at portfolio and customer level.

Foreign exchange risk from a customer's perspective (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.

Foreign exchange risk from a customer's perspective 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 to given customer segments and depends on borrowers' creditworthiness.

Other subtypes of credit risk

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

Customer fixed interest risk consists of the risk that hedging will lead to losses on structured and fixed-interest loans. It is regularly monitored by Asset Liability Management (ALM). It is limited and managed by monitoring the counterparty's parameter rating (in order to assess 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, mainly identifying lessees or types of real estate where residual value without purchase options may arise, as well as the possibility of disposal of assets to third parties, the strategic significance of a property for the lessee in question, and the time to maturity of the residual value.

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

Settlement risk comprises prepayment risk and clearing risk. Prepayment risk is the risk that consideration will not be received at the agreed time. Clearing risk is the risk of changes in fair value when a transaction is not completed on the due date. Settlement risk is limited and managed by setting and regularly monitoring volume limits for risk exposures. 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 material negative impacts on asset values, or on the assets, finances, earnings or reputation of a business. As far as credit risk is concerned, sustainability risks are currently limited and managed by using an ESG and reputational risk questionnaire for real estate and corporate customers, and by establishing inclusion and exclusion criteria, and environmentally and socially sensitive sectors (increased duty of care), which form the basis for decision making in the loan approval process.

4.4.2 Risk provisions

In principle, when recognising risk provisions essentially the same accounting and measurement policies, and approaches to estimation uncertainty and judgements were applied as described in the notes to the 2022 annual financial statements. Updates and refinements are described below.

Estimation uncertainties and judgements

Rating models

The rating model for income-producing real estate (IPRE) was enhanced during the first half of 2023. These refinements comprise both improvements to and recalibrations of individual model parameters, and an increase in the number of potential rating grades from a previous four to 15. The progressive changeover to the new rating procedure is taking place as part of the regular customer reviews.

Financial instruments subject to a significant increase in credit risk (Stage 2)

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

In the case of the quantitative indicator the staging factor threshold determined by the customer group, lifetime and residual maturity is compared with the current staging factor (the rate of change in the PD) for each transaction. A stage transfer takes place if the threshold is exceeded. The threshold bands resulting from the model are shown in the following table.

	30 Jun. 2023			31 Dec. 2022		
	Min.	Max.	Median	Min.	Max.	Median
All	130%	355%	185%	130%	355%	185%
Retail	145%	238%	190%	145%	238%	190%
Corporate	139%	225%	177%	140%	225%	178%
Institutions	130%	225%	169%	130%	225%	169%
Sovereign	137%	355%	229%	137%	355%	229%

The qualitative indicators used to detect a significant increase in credit risk comprise: forbearance measures; whether payment is 30 days past due; intensive care; customers unrated at the reporting date; and early warning indicators (where not already adequately reflected by the rating).

Overall shifts in the macroeconomic conditions affecting the sector or customer segment concerned are also considered when assessing whether a stage transfer is required. The key macroeconomic trends since 2022 relate to the consequences of the pandemic and the war in Ukraine. Inflation, increasing interest rates and the threat of a wage-price spiral have been identified as the main risk drivers. These risk drivers and the resultant staging actions were unchanged as at 30 June 2023, although a review and update were performed.

Purchased or originated credit-impaired (POCI) financial assets

POCI assets are financial assets for which there is objective evidence of impairment on initial recognition. The HYPO NOE Group has laid down the following circumstances that help establish whether there is actually objective evidence of the impairment of a financial asset:

- Purchase of a financial asset at a price that represents a significant rating discount.
- Purchase of new instruments (fresh money or bridging loans) leading to a significant increase in exposure from the uncollateralised portion, while intensive care management is still in the initial stages, meaning that there is a high degree of uncertainty regarding a cure.
- Substantial modification of a Stage 3 financial asset, leading to the derecognition of the original instrument and recognition of a modified, impaired instrument (“originated credit-impaired”).

In the course of initial measurement of a POCI asset, the expected cash flows are discounted using a credit-adjusted effective interest rate (Ca-EIR). This present value represents the IFRS carrying amount of the POCI asset on initial recognition. No risk provisions are recognised at the time of initial recognition. However, risk provisions are recognised on subsequent measurement for both positive and negative deviations from the present value.

Measurement parameters

Point in time (PiT) PD curves

The modelling approach chosen and assumptions made as at 31 December 2022 have largely been retained. In addition to the baseline scenario, an upside and downside alternative scenario were taken into account when estimating the final PiT PDs as at 30 June 2023. The three PD scenarios are weighted to produce the overall PiT PD curves for the retail and corporates customer groups. The weighted PiT PD curves provide the basis for evaluation of the quantitative stage transfer. In principle, both the optimistic and the pessimistic scenario are given a 10% weighting, in accordance with the selected quantiles. However, if available information is not adequately reflected in the forecasts, the weighting is reviewed to determine whether an adjustment is necessary. As at the end of the reporting period, the forecasts were subject to a high degree of uncertainty due to various negative factors. These include the continuing risks associated with high inflation, rising prices and interest rates, and the risk of a wage-price spiral. Due to these continuing uncertainties, as at 30 June 2023 the HYPO NOE Group retained the weighting of the three PD scenarios in place as at 31 December 2022, as follows: Baseline scenario 30%, optimistic scenario 10%, pessimistic scenario 60%.

The tables below provide a comparison of the forecasting sources selected and the macroeconomic indicators applied by the HYPO NOE Group as at 30 June 2023and 31 December 2022.

30 Jun. 2023	Forecasts		
	Years	OeNB	Fitch
GDP	2023	0.5	0.5
	2024	1.7	1.8
	2025	1.6	1.9
Private consumption	2023	-0.2	1.5
	2024	2.3	1.7
	2025	1.6	1.0
Exports	2023	2.9	0.4
	2024	2.7	3.3
	2025	3.0	2.6

30 Jun. 2023	HYPO NOE inputs		
	Years	OeNB	Fitch
GDP	2023	0.5	0.5
	2024	1.7	1.8
	2025	1.6	1.9
Private consumption	2023	-0.2	1.5
	2024	2.3	1.7
	2025	1.6	1.0
Exports	2023	2.9	0.4
	2024	2.7	3.3
	2025	3.0	2.6

31 Dec. 2022	Forecasts		
	Years	OeNB	Fitch
GDP	2023	0.6	0.2
	2024	1.7	1.4
	2025	1.6	2.0
Private consumption	2023	0.1	-0.2
	2024	2.1	1.4
	2025	1.4	2.0
Exports	2023	1.7	1.4
	2024	3.3	2.5
	2025	3.7	2.0

31 Dec. 2022	HYPO NOE inputs		
	Years	OeNB	Fitch
GDP	2023	0.6	0.2
	2024	1.7	1.4
	2025	1.6	2.0
Private consumption	2023	0.1	-0.2
	2024	2.1	1.4
	2025	1.4	2.0
Exports	2023	1.7	1.4
	2024	3.3	2.5
	2025	3.7	2.0

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

Rating	1Y PD – master scale	1Y PiT PD – corporate	1Y PiT PD – retail
1A	0.01%	0.02%	The assessment of retail customers' creditworthiness begins at a rating of 2C, meaning that these categories do not apply
1B	0.02%	0.02%	
1C	0.03%	0.03%	
1D	0.04%	0.04%	
1E	0.05%	0.04%	
2A	0.07%	0.06%	
2B	0.11%	0.09%	
2C	0.16%	0.13%	0.18%
2D	0.24%	0.20%	0.26%
2E	0.35%	0.32%	0.40%
3A	0.53%	0.55%	0.60%
3B	0.80%	0.92%	0.90%
3C	1.20%	1.40%	1.34%
3D	1.79%	2.13%	1.99%
3E	2.69%	3.25%	2.97%
4A	4.04%	4.97%	4.41%
4B	6.05%	7.90%	6.58%
4C	9.08%	12.60%	9.79%
4D	13.62%	20.04%	14.57%
4E	20.44%	31.81%	21.65%

Scenarios and sensitivities

The HYPO NOE Group analyses and takes account of a range of scenarios in order to reduce uncertainty arising from the use of forecasts and statistical models when estimating PD, and to portray this uncertainty in a transparent manner. The results yielded by the various scenarios as at 30 June 2023 and 31 December 2022 are shown below. A reconciliation of risk provisions in the individual scenarios with the weighted overall scenario is not possible, as the differing PDs in the scenarios result in different quantitative stage transfers.

30 Jun. 2023, EUR '000	Optimistic	Baseline	Pessimistic
Risk provisions generated by the fully automated process (Stage 1 and Stage 2)	34,000	37,625	41,313

31 Dec. 2022, EUR '000	Optimistic	Baseline	Pessimistic
Risk provisions generated by the fully automated process (Stage 1 and	38,356	42,334	46,519

The current crises have increased the level of uncertainty associated with estimating expected credit losses. In order to counter this, additional sensitivity analyses have been carried out within the HYPO NOE Group. These show the effects and sensitivities of qualitative staging for industries, customer groups and customers significantly affected by current negative economic developments. Sensitivity 5 summarises the effects of qualitative staging on risk provisions in Stages 1 and 2 with regard to the increased construction costs affecting private residential construction loans, retail customer loans denominated in Swiss francs and those with repayment vehicles, and lending to industries with poor overall ESG ratings. Finally, 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.

EUR ’000	Risk provisions – Stage 1 and 2	Sensitivity	Description of change in parameters
Sensitivity 1	36,622	-2,877	No qualitative staging of variable-interest loans to corporates
Sensitivity 2	37,444	-2,055	No qualitative staging of variable-interest loans for property developments
Sensitivity 3	38,330	-1,169	No qualitative staging of variable-interest loans to retail customers
Sensitivity 4	39,437	-61	No other qualitative staging of loans for real estate developments
Sensitivity 5	39,317	-182	No qualitative staging due to other increased credit risks
Sensitivity 6	55,375	15,877	Increase of 25% in the unsecured LGD and reduction of 15% in the value of real estate collaterals

4.4.3 Detailed information on risk provisions

Gross carrying amount/nominal amount by rating class

	30 Jun. 2023					31 Dec. 2022				
EUR ’000	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and balances at central banks	**362,211**	**158**	**-**	**-**	**362,369**	**184,902**	**19**	**-**	**-**	**184,921**
Financial assets – AC	**12,164,611**	**1,938,977**	**175,097**	**3,405**	**14,282,090**	**11,655,178**	**2,199,623**	**128,862**	**3,564**	**13,987,228**
Loans	10,671,028	1,901,790	175,097	3,405	12,751,320	10,315,055	2,156,743	128,862	3,564	12,604,224
Rating class 1	4,749,532	16,875	-	-	4,766,407	4,905,442	19,385	-	-	4,924,827
Rating class 2	4,492,760	631,022	-	-	5,123,783	4,045,225	810,807	-	-	4,856,032
Rating class 3	1,402,032	973,303	-	-	2,375,336	1,349,348	1,138,697	-	-	2,488,045
Rating class 4	26,704	280,589	-	-	307,293	15,040	187,853	-	-	202,893
Rating class 5	-	-	175,097	3,405	178,502	-	-	128,862	3,564	132,426
Bonds	1,493,583	37,187	-	-	1,530,769	1,340,124	42,881	-	-	1,383,004
Rating class 1	946,125	-	-	-	946,125	832,871	-	-	-	832,871
Rating class 2	523,526	-	-	-	523,526	489,664	3,973	-	-	493,637
Rating class 3	23,932	-	-	-	23,932	17,589	2,314	-	-	19,902
Rating class 4	-	37,187	-	-	37,187	-	36,594	-	-	36,594
Financial assets – FVOCI	**220,391**	**-**	**-**	**-**	**220,391**	**229,483**	**-**	**-**	**-**	**229,483**
Bonds	220,391	-	-	-	220,391	229,483	-	-	-	229,483
Rating class 1	180,345	-	-	-	180,345	190,240	-	-	-	190,240
Rating class 2	40,046	-	-	-	40,046	39,243	-	-	-	39,243
Provisions for off-balance-sheet risks	**1,138,809**	**102,811**	**1,922**	**-**	**1,243,543**	**1,278,250**	**182,134**	**2,419**	**-**	**1,462,803**
Rating class 1	756,461	232	-	-	756,694	946,430	300	-	-	946,730
Rating class 2	188,091	27,836	-	-	215,927	174,507	46,799	-	-	221,306
Rating class 3	188,834	68,645	-	-	257,480	149,701	124,983	-	-	274,684
Rating class 4	5,423	6,098	-	-	11,521	7,612	10,052	-	-	17,664
Rating class 5	-	-	1,922	-	1,922	-	-	2,419	-	2,419
Trade receivables	**-**	**2,147**	**-**	**-**	**2,147**	**-**	**2,771**	**-**	**-**	**2,771**
Total	**13,886,022**	**2,044,093**	**177,018**	**3,405**	**16,110,538**	**13,347,813**	**2,384,548**	**131,281**	**3,564**	**15,867,206**

Risk provisions by rating class

	30 Jun. 2023					31 Dec. 2022				
EUR '000	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and balances at central banks	**-6**	**-10**	**-**	**-**	**-16**	**-4**	**-1**	**-**	**-**	**-6**
Financial assets – AC	**-6,766**	**-31,736**	**-52,052**	**30**	**-90,524**	**-6,946**	**-35,966**	**-44,724**	**-**	**-87,637**
Loans	-6,494	-24,693	-52,052	30	-83,209	-6,683	-28,407	-44,724	-	-79,814
Rating class 1	-57	-2	-	-	-59	-66	-3	-	-	-68
Rating class 2	-2,506	-3,676	-	-	-6,182	-2,121	-6,070	-	-	-8,192
Rating class 3	-3,636	-10,037	-	-	-13,673	-4,396	-10,979	-	-	-15,375
Rating class 4	-295	-10,978	-	-	-11,272	-100	-11,354	-	-	-11,454
Rating class 5	-	-	-52,052	30	-52,022	-	-	-44,724	-	-44,724
Bonds	-272	-7,043	-	-	-7,315	-263	-7,559	-	-	-7,822
Rating class 1	-60	-	-	-	-60	-52	-	-	-	-52
Rating class 2	-156	-	-	-	-156	-151	-37	-	-	-188
Rating class 3	-56	-	-	-	-56	-60	-50	-	-	-110
Rating class 4	-	-7,043	-	-	-7,043	-	-7,472	-	-	-7,472
Financial assets – FVOCI	**-15**	**-**	**-**	**-**	**-15**	**-11**	**-**	**-**	**-**	**-11**
Bonds	-15	-	-	-	-15	-11	-	-	-	-11
Rating class 1	-6	-	-	-	-6	-7	-	-	-	-7
Rating class 2	-9	-	-	-	-9	-3	-	-	-	-3
Provisions for off-balance-sheet risks	**-410**	**-553**	**-1,664**	**-**	**-2,627**	**-358**	**-1,096**	**-1,782**	**-**	**-3,236**
Rating class 1	-1	-	-	-	-1	-1	-	-	-	-1
Rating class 2	-57	-41	-	-	-98	-61	-131	-	-	-192
Rating class 3	-300	-329	-	-	-629	-236	-658	-	-	-893
Rating class 4	-52	-184	-	-	-236	-61	-307	-	-	-368
Rating class 5	-	-	-1,664	-	-1,664	-	-	-1,782	-	-1,782
Trade receivables	**-**	**-3**	**-**	**-**	**-3**	**-**	**-14**	**-**	**-**	**-14**
Total	**-7,197**	**-32,302**	**-53,716**	**30**	**-93,185**	**-7,319**	**-37,077**	**-46,506**	**-**	**-90,903**

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

The following table shows the changes in risk provisions in 2023 and the breakdown of the changes by statement of profit or loss items.

EUR '000	Changes in risk provisions, 2023	Impairment losses/gains on financial assets – IFRS 9 ECL	Interest expense	Not recognised through profit or loss	Changes in risk provisions, 2022
Risk provisions at start of reporting period	**-90,903**				**-91,560**
Increase due to origination and purchase	-1,473	-1,473	-	-	-4,783
Reduction due to derecognition and substantial modification	1,215	1,215	-	-	3,919
Utilisation of risk provisions	502	-	-	502	5,263
Allocations and reversals due to changes in credit risk	-2,528	-1,800	-728	-	-3,799
Change due to non-substantial modification	1	1	-	-	6
Cash and balances at central banks, and trade receivables	1	1	-	-	52
Risk provisions at end of reporting period	**-93,185**	**-2,056**	**-728**	**502**	**-90,903**

Stage 1 impairment losses/gains

30 Jun. 2023 EUR '000	1 Jan. 2023	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	30 Jun. 2023
Cash and balances at central banks	**-4**	**-**	**-**	**-2**	**-**	**-6**
Financial assets – AC	**-6,946**	**-1,224**	**308**	**1,095**	**-**	**-6,766**
Loans	-6,683	-1,197	305	1,081	-	-6,494
General governments	-10	-2	2	-	-	-10
Other financial corporations	-461	-27	-	339	-1	-150
Non-financial corporations	-5,794	-1,078	297	951	1	-5,622
Households	-418	-90	6	-209	-	-711
Bonds	-263	-27	3	14	-	-272
Banks	-156	-19	-	3	-2	-174
General governments	-5	-	-	2	-2	-5
Other financial corporations	-32	-7	2	-1	4	-34
Non-financial corporations	-70	-	1	10	-	-59
Financial assets – FVOCI	**-11**	**-6**	**-**	**2**	**-**	**-15**
Bonds	-11	-6	-	2	-	-15
Banks	-9	-6	-	1	1	-13
General governments	-1	-	-	-	-	-1
Other financial corporations	-1	-	-	-	-	-1
Non-financial corporations	-	-	-	1	-1	-
Provisions for off-balance-sheet risks	**-358**	**-152**	**21**	**80**	**-**	**-410**
Loan commitments and financial guarantee contracts	-358	-152	21	80	-	-410
Total	**-7,319**	**-1,382**	**329**	**1,175**	**-**	**-7,197**

30 Jun. 2022 EUR '000	1 Jan. 2022	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	30 Jun. 2022
Cash and balances at central banks	**-7**	**-**	**4**	**-3**	**-**	**-6**
Financial assets – AC	**-9,640**	**-1,124**	**680**	**1,775**	**-**	**-8,309**
Loans	-9,473	-1,090	679	1,757	-	-8,126
General governments	-8	-4	3	1	-	-8
Other financial corporations	-869	-15	12	78	-	-794
Non-financial corporations	-7,719	-952	637	1,494	-	-6,540
Households	-870	-118	21	184	-	-784
Bonds	-167	-35	-	18	-	-183
Banks	-123	-27	-	11	-	-138
General governments	-7	-1	-	-	2	-6
Other financial corporations	-30	-7	-	5	-1	-33
Non-financial corporations	-7	-	-	1	-	-6
Financial assets – FVOCI	**-12**	**-**	**-**	**1**	**-**	**-11**
Bonds	-12	-	-	1	-	-11
Banks	-9	-	-	-	-	-8
General governments	-2	-	-	-	-	-2
Other financial corporations	-1	-	-	-	-	-1
Non-financial corporations	-	-	-	-	-	-
Provisions for off-balance-sheet risks	**-924**	**-427**	**130**	**675**	**-**	**-547**
Loan commitments and financial guarantee contracts	-924	-427	130	675	-	-547
Total	**-10,583**	**-1,551**	**813**	**2,448**	**-**	**-8,873**

Stage 2 impairment losses/gains

30 Jun. 2023 EUR ’000	1 Jan. 2023	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	30 Jun. 2023
Cash and balances at central banks	**-1**	**-**	**-**	**-9**	**-**	**-10**
Financial assets – AC	**-35,966**	**-73**	**698**	**3,605**	**-**	**-31,736**
Loans	-28,407	-73	698	3,089	-	-24,693
General governments	-266	-	-	54	-	-211
Other financial corporations	-3,431	-1	1	-404	-	-3,835
Non-financial corporations	-18,323	-7	382	4,938	-	-13,011
Households	-6,387	-65	316	-1,499	-	-7,636
Bonds	-7,559	-	-	516	-	-7,043
General governments	-	-	-	-	-	-
Other financial corporations	-7,472	-	-	429	-	-7,043
Non-financial corporations	-87	-	-	87	-	-
Financial assets – FVOCI	**-**	**-**	**-**	**-**	**-**	**-**
Bonds	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-
Trade receivables	**-14**	**-2**	**14**	**-**	**-**	**-3**
Provisions for off-balance-sheet risks	**-1,096**	**-18**	**80**	**480**	**-**	**-553**
Loan commitments and financial guarantee contracts	-1,096	-18	80	480	-	-553
Total	**-37,077**	**-93**	**792**	**4,077**	**-**	**-32,302**

30 Jun. 2022 EUR '000	1 Jan. 2022	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	30 Jun. 2022
Cash and balances at central banks	**-16**	**-**	**1**	**8**	**-**	**-7**
Financial assets – AC	**-39,627**	**-199**	**524**	**1,825**	**6**	**-37,470**
Loans	-30,138	-14	524	1,437	6	-28,184
General governments	-764	-	61	141	-	-562
Other financial corporations	-302	-	-	-102	-	-404
Non-financial corporations	-23,078	-3	268	1,185	3	-21,625
Households	-5,994	-11	195	214	3	-5,592
Bonds	-9,489	-185	-	387	-	-9,286
General governments	-2	-	-	1	-	-1
Other financial corporations	-9,000	-185	-	303	-9	-8,891
Non-financial corporations	-488	-	-	84	9	-395
Trade receivables	**-49**	**-2**	**9**	**-**	**-**	**-41**
Provisions for off-balance-sheet risks	**-1,523**	**-74**	**37**	**-200**	**-**	**-1,760**
Loan commitments and financial guarantee contracts	-1,523	-74	37	-200	-	-1,760
Total	**-41,215**	**-274**	**572**	**1,632**	**6**	**-39,279**

Stage 3 impairment losses/gains

30 Jun. 2023 EUR '000	1 Jan. 2023	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	30 Jun. 2023
Financial assets – AC	**-44,724**	**-**	**591**	**-7,919**	**-**	**-52,052**
Loans	-44,724	-	591	-7,919	-	-52,052
General governments	-3,012	-	-	191	-	-2,821
Other financial corporations	-7,791	-	-	-233	-	-8,025
Non-financial corporations	-26,981	-	43	-7,137	-	-34,075
Households	-6,941	-	548	-740	-	-7,132
Trade receivables	**-**	**-**	**-**	**-**	**-**	**-**
Provisions for off-balance-sheet risks	**-1,782**	**-**	**20**	**98**	**-**	**-1,664**
Loan commitments and financial guarantee contracts	-1,782	-	20	98	-	-1,664
Total	**-46,506**	**-**	**611**	**-7,820**	**-**	**-53,716**

30 Jun. 2022 EUR '000	1 Jan. 2022					30 Jun. 2022
Financial assets – AC	**-38,868**	**-**	**4,808**	**-941**	**-**	**-35,002**
Loans	-38,868	-	4,808	-941	-	-35,002
General governments	-3,541	-	-	285	-	-3,256
Other financial corporations	-7,569	-	-	-166	-	-7,735
Non-financial corporations	-20,251	-	4,488	-1,047	-	-16,810
Households	-7,508	-	320	-12	-	-7,200
Trade receivables	**-**	**-**	**-**	**-**	**-**	**-**
Provisions for off-balance-sheet risks	**-894**	**-**	**-**	**-718**	**-**	**-1,612**
Loan commitments and financial guarantee contracts	-894	-	-	-718	-	-1,612
Total	**-39,762**	**-**	**4,808**	**-1,659**	**-**	**-36,613**

POCI impairment losses/gains

The following table shows the evolution of the loss allowances for expected losses on financial assets for which there is objective evidence of impairment on initial recognition. These loss allowances are measured at amounts equal to the lifetime expected credit losses.

30 Jun. 2023 EUR ’000	1 Jan. 2023	Origination and purchase	Derecognition/ utilisation	Change in credit risk	Foreign exchange and other changes	30 Jun. 2023
Financial assets – AC	**-**	**-**	**-**	**30**	**-**	**30**
Loans	-	-	-	30	-	30
Non-financial corporations	-	-	-	30	-	30
Total	**-**	**-**	**-**	**30**	**-**	**30**

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 table below shows the nominal values and carrying amounts of derivatives recognised as at 30 June 2023.

	30 Jun. 2023			31 Dec. 2022		
	Carrying amount		Nominal value	Carrying amount		Nominal value
EUR ’000	Assets	Liabilities		Assets	Liabilities	
Financial assets and liabilities – HFT	**148,678**	**130,050**	**3,548,690**	**124,809**	**103,065**	**3,603,523**
Interest rate derivatives	71,291	53,115	2,817,966	79,980	59,944	2,849,975
Foreign exchange derivatives	77,387	76,935	730,724	44,829	43,121	753,549
Positive and negative fair value of hedges (hedge accounting)	**364,399**	**683,657**	**11,809,021**	**388,385**	**683,653**	**11,303,970**
Interest rate derivatives	353,238	639,182	11,604,326	378,189	652,650	11,088,280
Foreign exchange derivatives	11,160	44,476	204,695	10,196	31,002	215,689

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. 2023	Financial assets/liabilities (gross)	Reported amounts offset (gross) (-)	Reported financial assets (net)	Not offset: Effect of master netting agreements (-)	Not offset: Collateral in the form of financial instruments (-)	Net amount
EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i)	(d)(ii)	(e)=(c)+(d)
Assets						
Financial assets – HFT	148,678	-	148,678	-2,342	-	146,336
Positive fair value of hedges (hedge accounting)	364,399	-	364,399	-341,907	-7,446	15,045
Total assets	**513,077**	**-**	**513,077**	**-344,249**	**-7,446**	**161,381**
Liabilities						
Financial liabilities – HFT	130,050	-	130,050	-2,342	-117,262	10,446
Financial liabilities – FVO	5,463	-	5,463	-	-	5,463
Negative fair value of hedges (hedge accounting)	683,657	-	683,657	-341,907	-290,846	50,904
Total equity and liabilities	**819,170**	**-**	**819,170**	**-344,249**	**-408,108**	**66,812**

31 Dec. 2022	Financial assets/liabilities (gross)	Reported amounts offset (gross) (-)	Reported financial assets (net)	Not offset: Effect of master netting agreements (-)	Not offset: Collateral in the form of financial instruments (-)	Net amount
EUR '000	(a)	(b)	(c)=(a)+(b)	(d)(i)	(d)(ii)	(e)=(c)+(d)
Assets						
Financial assets – HFT	124,809	-	124,809	-2,054	-500	122,255
Positive fair value of hedges (hedge accounting)	388,385	-	388,385	-373,792	-7,950	6,643
Total assets	**513,194**	**-**	**513,194**	**-375,846**	**-8,450**	**128,898**
Liabilities						
Financial liabilities – HFT	103,065	-	103,065	-2,054	-86,790	14,220
Financial liabilities – FVO	5,239	-	5,239	-	-	5,239
Negative fair value of hedges (hedge accounting)	683,653	-	683,653	-373,792	-283,389	26,472
Total equity and liabilities	**791,957**	**-**	**791,957**	**-375,846**	**-370,179**	**45,932**

4.5.2 Detailed information on hedge accounting

	H1 2023			H1 2022		
EUR '000	Net gains or losses on hedged transactions	Net gains or losses on hedges	Net gains or losses on hedging relationships	Net gains or losses on hedged transactions	Net gains or losses on hedges	Net gains or losses on hedging relationships
Assets						
Financial assets – FVOCI	**417**	**-280**	**137**	**-25,772**	**26,135**	**363**
Bonds	417	-280	137	-25,772	26,135	363
Financial assets – AC	**34,848**	**-35,205**	**-357**	**-515,173**	**523,667**	**8,493**
Loans	24,274	-24,818	-543	-419,854	427,302	7,447
Bonds	10,574	-10,387	186	-95,319	96,365	1,046
Investment property	**-**	**-**	**-**	**-424**	**442**	**18**
Liabilities						
Financial liabilities – AC	**-37,568**	**35,644**	**-1,924**	**460,040**	**-465,044**	**-5,004**
Deposits	-307	300	-7	2,244	-2,236	8
Bonds in issue	-37,261	35,344	-1,917	457,795	-462,808	-5,012
Total	**-2,302**	**159**	**-2,144**	**-81,330**	**85,200**	**3,870**

Positive fair value of hedges (hedge accounting)

The table below provides 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. 2023	31 Dec. 2022
Assets	**347,236**	**370,110**
Financial assets – FVOCI	4,399	3,647
Financial assets – AC	342,837	366,464
Liabilities	**17,163**	**18,274**
Financial liabilities – AC	17,163	18,274
Total	**364,399**	**388,385**

Negative fair value of hedges (hedge accounting)

The table below gives a breakdown 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 shown.

EUR '000	30 Jun. 2023	31 Dec. 2022
Assets	**88,624**	**95,168**
Financial assets – FVOCI	4,810	7,402
Financial assets – AC	83,813	87,766
Liabilities	**595,034**	**588,485**
Financial liabilities – AC	595,034	588,485
Total	**683,657**	**683,653**

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, form part of Note 8 RISK MANAGEMENT.

Significant accounting policies

On 31 December 2021 HETA exited the resolution regime implemented under the Federal Act on the Recovery and Resolution of Banks. Since 1 January 2022 the company has been under resolution in accordance with the *Aktiengesetz* (Austrian Companies Act). In May 2023 HETA published its 2022 financial statements as well as an updated corporate presentation. The HYPO NOE Group has no direct exposures to HETA, but holds receivables under a Kärntner Ausgleichszahlungsfonds (Carinthian Compensation Payment Fund, KAF) debtor warrant which is regularly remeasured.

In light of the figures published in May as compared with the results as at 31 December 2022, the main pillars of the valuation have remained largely unchanged. Due to the shortening of the resolution timeline by three years to 2027, as referred to in the corporate presentation, the payment dates assumed by the scenarios for the uncertain part of the amount due have also moved forward. The period from the end of next year to one year after the end of the resolution timeline is taken to represent the range for payment of the certain part. In addition, the market parameters for the valuation have been regularly updated.

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.

30 Jun. 2023 EUR '000	Carrying amount	Fair value	Fair value measurement Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	362,353	362,353	335,526	26,826	-
Financial assets – HFT	148,678	148,678	-	100,364	48,314
Financial assets – mandatorily FVTPL	117,028	117,028	-	43,216	73,813
Financial assets – FVOCI	226,609	226,609	224,596	-	2,013
Financial assets – AC	14,191,566	13,766,284	1,299,046	121,016	12,346,221
Positive fair value of hedges (hedge accounting)	364,399	364,399	-	364,399	-
Total assets	**15,410,632**	**14,985,350**	**1,859,169**	**655,821**	**12,470,360**
Liabilities					
Financial liabilities – HFT	130,050	130,050	-	125,359	4,690
Financial liabilities – FVO	5,463	5,463	-	-	5,463
Financial liabilities – AC	13,720,461	13,324,483	1,024,210	7,257,170	5,043,102
Negative fair value of hedges (hedge accounting)	683,657	683,657	-	683,657	-
Total equity and liabilities	**14,539,631**	**14,143,653**	**1,024,210**	**8,066,187**	**5,053,256**

31 Dec. 2022 EUR '000	Carrying amount	Fair value	Fair value measurement		
			Level 1	Level 2	Level 3
Assets					
Cash and balances at central banks	184,915	184,915	163,166	21,749	-
Financial assets – HFT	124,809	124,809	-	68,230	56,579
Financial assets – mandatorily FVTPL	122,172	122,172	-	43,909	78,263
Financial assets – FVOCI	236,890	236,890	234,945	-	1,945
Financial assets – AC	13,899,591	13,488,970	1,148,586	125,156	12,215,228
Positive fair value of hedges (hedge accounting)	388,385	388,385	-	388,385	-
Total assets	**14,956,762**	**14,546,140**	**1,546,697**	**647,429**	**12,352,014**
Liabilities					
Financial liabilities – HFT	103,065	103,065	-	98,802	4,262
Financial liabilities – FVO	5,239	5,239	-	-	5,239
Financial liabilities – AC	13,362,690	13,010,642	1,516,635	6,887,097	4,606,910
Negative fair value of hedges (hedge accounting)	683,653	683,653	-	683,653	-
Total equity and liabilities	**14,154,646**	**13,802,598**	**1,516,635**	**7,669,552**	**4,616,411**

In 2023 there have been no transfers of financial instruments between the different levels of the fair value hierarchy.

4.6.2 Fair value hierarchy: Level 3 disclosures

EUR '000	1 Jan. 2023	Gains/losses		Pur-chases	Sales	Transfers to/from Level 3	30 Jun. 2023	Unrealised gains or losses recognised in profit or loss as at 30 Jun. 2023
		Recog-nised in profit or loss	Not recognised in profit or loss					
Assets								
Financial assets – HFT	56,579	-8,265	-	-	-	-	48,314	-5,911
Financial assets – mandatorily FVTPL	78,263	985	-	-	-5,435	-	73,813	848
Financial assets – FVOCI	1,945	-	68	-	-	-	2,013	-
Total assets	**136,787**	**-7,281**	**68**	**-**	**-5,435**	**-**	**124,139**	**-5,063**
Liabilities								
Financial liabilities – HFT	4,262	428	-	-	-	-	4,690	-390
Financial liabilities – FVO	5,239	224	-	-	-	-	5,463	224
Total equity and liabilities	**9,501**	**652**	**-**	**-**	**-**	**-**	**10,153**	**-166**

The main gains or losses on current Level 3 assets are recognised in the statement of profit or loss under “Net gains or losses on financial assets and liabilities”.

EUR '000	1 Jan. 2022	Gains/losses		Purchases	Sales	Transfers to/from Level 3	30.6.2022	Unrealised gains or losses recognised in profit or loss as at 30 Jun. 2022
		Recognised in profit or loss	Not recognised in profit or loss					
Assets								
Financial assets – HFT	250,636	-194,057	-	-	-	-	56,579	-182,089
Financial assets – mandatorily FVTPL	104,353	-6,437	-	7,781	-27,435	-	78,263	-6,183
Financial assets – FVOCI	2,092	-	-147	-	-	-	1,945	-
Total assets	**357,080**	**-200,493**	**-147**	**7,781**	**-27,435**	**-**	**136,787**	**-188,272**
Liabilities								
Financial liabilities – HFT	-	4,262	-	-	-	-	4,262	-11,126
Financial liabilities – FVO	6,061	-	-822	-	-	-	5,239	-822
Total equity and liabilities	**6,061**	**4,262**	**-822**	**-**	**-**	**-**	**9,501**	**-11,948**

The results of the sensitivity analysis for 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 disclosures in the table below show 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 “Financial assets and liabilities – HFT”, the significant inputs are global CDS spreads. For the “Financial assets – mandatorily FVTPL” item, the credit and liquidity risk premiums are the unobservable inputs that drive prices. The reported VaR assumes a fluctuation of 50 bps. An increase in premiums results in lower fair values. In the case of “Financial assets – FVOCI”, conventional company valuation methods such as discounted cash flow or adjusted net asset value are used to determine fair value. The item exclusively comprises equity instruments assigned to Level 3.

30 Jun. 2023, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets – HFT	48,314	208	Hybrid Hull-White model	Global CDS spreads
Financial assets – mandatorily FVTPL (excl. HETA)	46,256	1,179	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets – mandatorily FVTPL, Stage 3 (excl. HETA)	767	9	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets – FVOCI	2,013	N/A	Adjusted net asset value (NAV) model; DCF model	Adjusted equity (for adjusted NAV model); WACC (for DCF model); cost of equity (for both models)
Total assets	**97,349**	**1,396**		
Financial liabilities – HFT	4,690	-		Global CDS spreads
Total equity and liabilities	**4,690**	**-**		

31 Dec. 2022, EUR '000	Fair value	Fluctuation (VaR)	Measurement method	Inputs
Financial assets – HFT	56,579	216	Hybrid Hull-White model	Global CDS spreads
Financial assets – mandatorily FVTPL (excl. HETA)	51,608	1,238	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets – mandatorily FVTPL, Stage 3 (excl. HETA)	966	11	Discounted cash flow (DCF) model	Premiums for credit and liquidity risk
Financial assets – FVOCI	1,945	N/A	Adjusted net asset value (NAV) model; DCF model	Adjusted equity (for adjusted NAV model); WACC (for DCF model); cost of equity (for both models)
Total assets	**111,098**	**1,465**		
Financial liabilities – HFT	4,262	1		Global CDS spreads
Total equity and liabilities	**4,262**	**1**		

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

Change in fair value

EUR '000	30 Jun. 2023	31 Dec. 2022
10% increase in adjusted equity	198	191
10% decrease in adjusted equity	198	191
50 bp increase in WACC	-	-
50 bp decrease in WACC	-	-
50 bp increase in cost of equity	-12	-10
50 bp decrease in cost of equity	14	11

5 ADDITIONAL NOTES TO THE STATEMENT OF PROFIT OR LOSS

5.1 Net fee and commission income

30 Jun. 2023, EUR ’000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Total
Fee and commission income	**891**	**581**	**7,997**	**340**	**5**	**9,813**
Securities and custody account business	36	-	2,569	254	-	2,859
Payment transactions	546	395	2,854	32	4	3,830
Foreign exchange, foreign notes and coins, and precious metals	35	1	110	12	-	158
Other services	328	-	1,915	42	5	2,290
Other fee and commission income	-54	185	550	-	-5	677
Fee and commission expense	**-32**	**-27**	**-514**	**-411**	**-13**	**-996**
Securities and custody account business	-1	-	-25	-153	-6	-186
Payment transactions	-14	-11	-482	-258	-	-764
Other services	-	-	-	-	-7	-7
Other fee and commission expense	-16	-16	-7	-	1	-39
Total	**859**	**554**	**7,484**	**-71**	**-8**	**8,818**

30 Jun. 2022, EUR ’000	Public Sector	Real Estate	Retail and Corporate Customers	Treasury & ALM	Corporate Center	Total
Fee and commission income	**633**	**580**	**8,685**	**406**	**12**	**10,315**
Securities and custody account business	50	-	2,558	300	25	2,934
Payment transactions	306	365	2,770	59	-13	3,487
Foreign exchange, foreign notes and coins, and precious metals	12	10	175	10	-	207
Other services	315	1	2,772	52	3	3,143
Other fee and commission income	-51	205	409	-16	-3	544
Fee and commission expense	**-51**	**-14**	**-488**	**-300**	**5**	**-847**
Securities and custody account business	-13	-	-31	-119	-	-163
Payment transactions	-12	-9	-426	-181	-	-628
Other services	-	-	-26	-	-	-26
Other fee and commission expense	-26	-5	-6	-	6	-31
Total	**581**	**566**	**8,197**	**106**	**17**	**9,468**

5.2 Net other operating income

EUR '000	H1 2023	H1 2022
Other income	**35,743**	**10,023**
Gains on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	1	59
Gains on the reversal of provisions	28,737	-
Gains on foreign currency translation	2,670	4,225
Gains on investment property	1,203	2,076
Other rental income	263	225
Income from real estate services and property development	1,436	1,358
Income from early repayments	610	1,303
Sundry other income	823	777
Other expenses	**-1,127**	**-6,004**
Losses on the disposal of intangible assets, property, plant and equipment, and other non-financial assets	-	-24
Recognition of provisions	-	-4,552
Losses on investment property	-895	-996
Sundry other expenses	-232	-432
Total	**34,617**	**4,019**

See Note 6.1 Provisions for further details on the “Expenses arising from the recognition of provisions” item.

5.3 Administrative expenses

5.3.1 Analysis of administrative expenses

EUR ’000	H1 2023	H1 2022
Staff costs	**-30,816**	**-28,853**
Wages and salaries	-23,888	-22,432
Pensions and other employee benefit expenses	-6,927	-6,421
Other administrative expenses	**-27,454**	**-28,378**
Premises	-2,197	-1,829
Office and communication expenses	-576	-577
IT expenses	-7,572	-6,174
Legal and consultancy costs	-1,131	-1,366
Advertising and entertainment expenses	-2,210	-2,069
Other administrative expenses	-13,768	-16,362
Depreciation, amortisation and impairment	**-2,099**	**-1,935**
Intangible assets	-89	-39
Buildings used by Group companies	-728	-773
Equipment, fixtures and furnishings (incl. low value assets)	-1,116	-970
Right-of-use assets (IFRS 16)	-166	-153
Administrative expenses	**-60,369**	**-59,165**

	H1 2023	H1 2022
Average number of employees (incl. on parental leave)	619	635
Average number of employees (excl. on parental leave)	594	609

6 ADDITIONAL NOTES TO THE STATEMENT OF FINANCIAL POSITION

6.1 Provisions

Estimation uncertainties and judgements

Other provisions

Due to settlement agreements with entities or persons as defined by IAS 24, made in the first half of 2023, the legal risk arising from negative interest related to corporate loan agreements was largely eliminated.

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 recognition criteria for contracts not affected by settlement agreements, governed by paragraph 14 IAS 37, remain in place.

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. This is interest-bearing debt, which takes its lead from the 4% rate established by the Austrian Civil Code and forms part of the impending loss. No model is required to determine the provision for impending losses as at 30 June 2023 since the settlement agreement means that the other scenarios are ruled out. Measurement was on the basis of the assumptions of an average settlement percentage and an expected outflow of resources in the event of full payment. The uncertainty regarding the likelihood of full payment as opposed to a settlement payment on arm's length terms was addressed by means of the expected value method, and the mid-point of the range set at 50% in accordance with paragraph 39 IAS 37. Experience of valid settlement agreements was directly drawn on as a source of arm's length terms.

This approach is in line with the best estimate of the expenditure required to settle the present obligation at the end of the reporting period as required by paragraph 36 in conjunction with paragraph 37 IAS 37. Account is also taken of all substantial indications available at the measurement date.

Sensitivity of the provision for negative interest rates under corporate loan agreements (parameter changes expressed in EUR '000)	30 Jun. 2023
Expected parameter assumptions	5,893
Expected settlement percentage + 10 percentage points	6,335
Expected settlement percentage - 10 percentage points	5,451
Weighting of full payment + 10 percentage points	6,482
Weighting of full payment - 10 percentage points	5,304

Other provisions over time

EUR '000	1 Jan. 2023	Changes in scope of consolidation	Allo- cations	Utilisation	Reversals	Discount unwinding effect	Remea- sure- ment	30 Jun. 2023
Other provisions	**48,870**	**-**	**-**	**-13,912**	**-28,737**	**-**	**-**	**6,221**

As at 30 June 2023 the provision for negative interest rates in connection with corporate loan agreements, carried under "Other provisions", amounted to EUR 5,893thsd (31 Dec. 2022: EUR 48,342thsd). As this provision relates to a legal risk, allocations to it are recognised in “Other operating expense”, while any reversals are reported under “Other operating income”.

6.2 Other assets and liabilities

Other assets

EUR ’000	30 Jun. 2023	31 Dec. 2022
Accruals and deferrals, and contract assets in accordance with IFRS 15	9,233	6,403
VAT and other tax credits (other than income tax)	6,252	476
Trade receivables	2,144	2,757
Offset receivables (public loan management)	8,921	6,957
Other offset receivables	3,382	5,618
Loans and advances to syndicate members	2,108	-
Immaterial equity investments	464	475
Sundry other receivables	474	1,066
Other assets	**32,978**	**23,751**

Other liabilities

EUR ’000	30 Jun. 2023	31 Dec. 2022
Accruals and deferrals, and contract liabilities in accordance with IFRS 15	5,391	5,536
VAT and other tax liabilities (other than income tax)	4,596	6,397
Trade payables	45,224	34,995
SEPA clearing offset liabilities	38,395	-
Liabilities related to compensation payments	15,820	-
Offset liabilities (public loan management)	349	1,230
Other offset liabilities	3,685	2,313
Employee liabilities	6,977	4,773
Lease liabilities in accordance with IFRS 16	1,013	1,092
Firm commitments arising from future lending business	11,885	13,494
Sundry other liabilities	2,328	1,881
Other liabilities	**135,664**	**71,711**

The item “Liabilities related to compensation payments” includes outstanding payments arising from settlement agreements regarding the legal risk presented by negative interest rates related to corporate loan agreements. Details are given in Note 6.1 Provisions.

The offset liabilities related to the new SEPA clearing service are shown under the “SEPA clearing offset liabilities” item. Due to the takeover of the clearing business of Geldservice Austria – an OeNB subsidiary – by Payment Services Austria GmbH, the latter carried out a technical upgrade on 12 June 2023 as part of the modernisation of the clearing operations.

7 TAXES

7.1 Income tax

EUR '000	H1 2023	H1 2022
Current income tax	-12,982	-7,997
Current income tax on previous years	-19	27
Deferred income tax	-2,684	1,929
Total	**-15,665**	**-6,068**

7.2 Tax assets

EUR '000	30 Jun. 2023	31 Dec. 2022
Current tax assets	17,601	17,719
Deferred tax assets	323	325
Total	**17,924**	**18,044**

7.3 Tax liabilities

EUR '000	30 Jun. 2023	31 Dec. 2022
Current tax liabilities	16,073	6,741
Deferred tax liabilities	25,023	22,613
Total	**41,096**	**29,354**

8 RISK MANAGEMENT

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

Development of all significant business activities derived from the Group's strategic objectives takes strategic risk factors into account, with a strong focus on risk-bearing capacity. The Bank attaches particular importance to the 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 viewed as an integral element of the Group's long-term strategy.

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

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

8.1 Risk management system

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

The Group's organisational structure provides for a clear separation of front and back office functions (four-eye principle) at every level up to and including the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast an additional, independent vote that confers final approval. Unanimous approval of front and back office functions, in accordance with the allocation of approval powers, is required 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 monitored continuously. A Group-wide risk reporting system ensures timely, regular and comprehensive risk reporting. 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 the liquidity position and 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 at ir.hyponoe.at/en.

The rules for introducing new areas of business or new products, and for entering new markets, require 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.

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

8.2 Aggregate risk management and risk-bearing capacity (ICAAP)

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

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 2023 the Group was utilising 69.3 of its risk-bearing capacity – a slight decrease compared with 31 December 2022 (69.6%).

8.2.1 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 2023, as required by the Act on the Recovery and Resolution of Banks, is currently in progress. 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.

8.2.2 Bank-wide stress test

Scenarios relevant to the HYPO NOE Group's business model, derived from an economic analysis, are generated as part of bank-wide internal stress testing. 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 are reported to the Management Board together with proposed countermeasures, and presented to the Risk Management Committee (RICO) and Risk Committee.

In addition, reverse stress tests are carried out annually.

8.2.3 Basel III/IV

In cooperation with experts from the banks affected, the computer centre continued to work on approaches to implementing the requirements of the CRR III, in the Integrated Finance and Risk Architecture (IFRA) project. HYPO NOE Landesbank is a "focus bank" for the project and is closely involved in the process. Since a final version of the CRR III was not available as at 30 June 2023 and banks are waiting for the EBA ITS, which will specify the technical requirements of the regulation, the entire implementation process remains subject to uncertainties. An update of the impact analysis will be carried out for the budget and medium-term planning process due in the autumn, based on the final version, which is expected to have been published by that time.

8.2.4 Minimum requirement for own funds and eligible liabilities (MREL)

At present, the HYPO NOE Group must continue to comply with the following mandatory minimum requirements for MREL:

- 5.9% of leverage ratio exposure, or
- 20.92% of total risk exposure

The Bank's own funds and eligible liabilities are well above the minimum requirements established by the regulator.

8.3 Credit risk

Information on credit risk can be found in Note 4 FINANCIAL INSTRUMENTS AND CREDIT RISK.

8.4 Market risk

8.4.1 General information

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
- Concentration risk inherent in market risk
- Commodity price risk
- Share price risk
- Fund price risk
- Sustainability risk

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

The main market risks facing the HYPO NOE Group are interest rate risk in the banking book, and credit spread risk (in particular in the nostro portfolio) arising in part from ordinary banking activities such as fixed-interest lending and management of liquidity reserves. In the course of its business operations, the HYPO NOE Group is exposed to foreign exchange and option risks (e.g. embedded upper and lower interest rate limits) which are monitored and managed. The use of derivatives to hedge interest rate risk can give rise to basis risk, which is likewise closely watched. Risk management procedures and methods are also 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. Appropriate and transparent limits that reflect risk appetite and monitoring processes have been introduced in order to ensure compliance with legal requirements and internal risk management policies.

The HYPO NOE Group has not allocated any internal risk capital for commodity, share price or fund risk, and consequently no material risks may be incurred in these market risk categories. Sustainability risk is limited and managed by applying inclusion and exclusion criteria, among other measures.

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

- 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 complying with legislative and regulatory frameworks
- Appropriately limiting and monitoring market risk on the basis of the specified risk tolerance
- Goal-driven reporting

8.4.2 Interest rate risk in the banking book

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

Monitoring and quantifying interest rate risk is the responsibility of an independent back office department, Strategic Risk Management. This reporting in this regard includes observing interest rate gaps and sensitivity analyses. Non-Maturing Deposits are modelled and regularly assessed on the basis of statistical models and/or expert estimates. Analysis is carried out for the entire banking book and for sub-portfolios.

The Treasury/Capital Market/FI Department is responsible for managing interest rate risk positions. The main objective is to achieve stable, long-term contributions to net interest income, while also managing the present value of interest rate sensitive fair value instruments. 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. The Bank basically aims to prohibit any option positions with a significant effect on IFRS fair value. Therefore, strict limits on the use of open option derivatives for interest rate management are installed.

Current interest risk situation: total banking book

The supervisory reporting regulations in respect of interest rate risk, and the related report, have changed as at 30 June 2023 in comparison with 31 December 2022. Instead of valuing interest rate risk on the basis of the OeNB interest rate risk statistics, from 30 June 2023 onwards the risk contained in the six European Banking Authority (EBA) scenarios is reported. The following table shows the results of the six scenarios and the risk in the worst case scenario, in relation to own funds as at 30 June 2023 and 31 December 2022.

Internal interest rate risk analysis, total banking book, change in present value, EUR '000	**30 Jun. 2023**	**31 Dec. 2022**
Scenario I: EBA parallel up	-46,540	-53,420
Scenario II: EBA parallel down	13,697	36,733
Scenario III: EBA steepener	5,550	-19,587
Scenario IV: EBA flattener	-333	6,204
Scenario V: EBA short rate up	-17,148	-5,572
Scenario VI: EBA short rate down	6,791	3,061

Based on the six interest rate scenarios, as at 30 June 2023 the outcome of the supervisory outlier test was 6% (31 Dec. 2022: 6.9%).

8.4.3 Credit spread risk

Credit spread risk is the impact of adverse changes in risk premiums on securities, and of the related loss of net asset value. This type of risk plays a particularly important role in connection with the Group's own investments. The capital requirements resulting from credit spread risk are determined using a historical value-at-risk (VaR) model (historical distribution assumption) for the entire nostro portfolio in the banking book, and for the securities portfolio in the small trading book. During the first half of 2023 there were no instances of positioning in the small trading book.

8.4.4 Other market risks

Refinancing assets in the same currency and the use of FX derivatives serves to effectively eliminate foreign exchange risks for the Group. Consequently, under the Capital Requirements Regulation, as at 30 June 2023 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 exchange rate 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 as defined by Article 94 CRR, and the volume of business is limited accordingly. Daily observation is performed by the Strategic Risk Management Department. During the first half of 2023 there were no instances of positioning in the small trading book.

Basis risks in hedge accounting arise from different discount curves for hedges and hedged items, as well as from the requirement to recognise the foreign currency basis when measuring the hedging instrument, but not the hedged item. Basis risks arising from differing discount curves are in principle purely valuation risks, resulting from current market practice with regard to valuation in hedge accounting. Cash-collateralised derivatives are discounted using the risk-free interest curve, while hedged items are discounted using the Interbank Offered Rate (IBOR) interest curve, which includes the interbank liquidity spread as well as the risk-free rate. Risk over the term of the instrument is determined for all transactions subject to hedge accounting, and for stand-alone derivatives, using a VaR approach based on historic variations in the OIS spread.

FX basis risks arise when the FX basis components in the hedged item do not qualify for hedge accounting, although they are included in the valuation of the hedge instrument. 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.

8.5 Liquidity risk

Liquidity risk is defined as the danger that the HYPO NOE Group will be unable to meet its present and future payment obligations in full and on time, or may only be able to do so at prohibitive cost.

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

8.5.1 Strategic liquidity risk management targets

The liquidity risk management function identifies, analyses and manages the HYPO NOE Group’s liquidity risk position, with a view to maintaining sufficient, cost-effective liquidity coverage at all times.

This gives rise to the following fundamental objectives of 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 central aspects of liquidity risk management at the HYPO NOE Group:

- Identification and regular assessment of liquidity risks

- Selection of models and processes for measuring identified liquidity risks, and regular review of their suitability
- Quantification of liquidity risk on the basis of the defined processes
- Identifying and complying with legislative and regulatory frameworks
- Determining 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
- Emergency plans and processes, and regular reviews to ensure that these 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
- Use of processes and procedures aimed at the risk-reflective allocation of liquidity costs

8.5.2 Implementation of liquidity risk management

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

The department compiles extensive monthly liquidity risk reports to assist in the analysis and control of operational and structural liquidity, and monitoring of compliance with the liquidity risk limits. These reports describe and analyse operational liquidity risk over a period of 12 months according to a normal scenario (volatility scenario), as well as three stress scenarios (name crisis, market crisis and combined crisis), and the structural liquidity risk inherent in the normal scenario. In addition, the Management Board receives comprehensive monthly progress reports on the liquidity position, incorporating planning assumptions and key liquidity risk indicators, as well as information on the current liquidity situation. The Board also receives regular reports on the liquidity position and limit utilisation from the ALM Committee and RICO.

The HYPO NOE Group's operational liquidity capacity is evaluated and monitored on a monthly basis, in terms of the survival period ("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 would no longer be sufficient to cover net cash outflows is calculated.

With a limit of eight weeks (or 12 weeks in the case of an early warning), the HYPO NOE Group's time to wall as at 30 June 2023 was over 52 weeks (31 Dec. 2022: 43 weeks). Alongside time to wall, the regulatory liquidity coverage ratio (LCR) is likewise an important operational liquidity control metric. 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 163.72% as at 30 June 2023 (31 Dec. 2022: 162.89%). The liquidity position (LP) key indicator is employed to monitor the Bank's liquidity reserve. Additionally, movements in deposits are monitored on a daily basis, with negative deviations from the budget limited by means of an indicator.

Besides economic capital, a maximum annual gap determined by the Group's risk appetite, and the regulatory net stable funding ratio (NSFR) are measured and managed in order to monitor structural liquidity risk. The Group's NSFR stood at 114.36% at 30 June 2023 (31 Dec. 2022: 112.54%).

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

Current liquidity risk situation

The HYPO NOE Group is in a strong position as regards its refinancing position. It continues to draw its liquidity from conventional capital market transactions and from deposits, as well as standard repo transactions. Transactions with development banks are another source of refinancing. Use of the European Central Bank (ECB) Targeted Longer-Term Refinancing Operation (TLTRO) programme was significantly reduced in the first half of 2023.

The Group continued its capital issuance programme – a long-running success story – during the period. New issues were taken up in the shape of a EUR 500m green senior preferred benchmark bond, a EUR 500m publicly secured covered bond, and a senior unsecured retail bond tap issue.

The Group's liquidity position is solid. The refinancing mix adopted, comprising current account and savings account deposits, fixed-term deposits from institutional customers, repo transactions 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 tracked on the basis of the published standards and reported to the Austrian regulator. Where applicable, the minimum regulatory requirements were all met. Compliance with the statutory regulations in day-to-day operations going forward is assured by their integration into the Group's internal liquidity risk management arrangements and planning processes, as well as strict internal standards and operational control processes.

The primary instruments used by the HYPO NOE Group to manage and cover short to medium-term maturities are its available liquidity reserve, cash reserves and overnight investments. In this matter, the Group draws a distinction between high-quality, highly liquid assets (HQLA) and other ECB or GC Pooling repoable collateral.

8.6 Operational risk

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

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

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

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

Current operational risk situation

During the reporting period, all operational risk events were recorded in a central database. Improvements are seen as crucial to controlling operational risk: they were consistently formulated and implemented when operational risk events and near-miss incidents occurred.

The early-warning and key risk indicators yielded satisfactory results. The Group responded to the increasing number of cases of payment fraud in connection with debit cards, but also via other channels (notably using social engineering techniques), with an awareness-raising drive aimed at customers and staff.

The ICS was updated in the course of the annual review.

Risks in connection with new products and new outsourcing are routinely surveyed using a standard evaluation tool, which is built into the product launch and outsourcing processes.

Due to the Group's ongoing digitalisation drive as well as the applicable regulatory requirements, ICT risk has become a major issue. It is addressed by the Operations, Organisation & IT Department in cooperation with Strategic Risk Management. Work is now complete on a specialised tool for the identification, assessment, mitigation and documentation of ICT risks. This focuses on the following three sources of risk: Accenture TiGital GmbH 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 it develops and operates itself; and third parties to which ICT services are outsourced.

8.7 Reputational risk

The HYPO NOE Group attaches great importance to limiting and managing reputational risk, and it is therefore managed 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 arise from a failure to live up to these stakeholders' expectations.

In the Group's view, effective business processes, coupled with sound risk monitoring and management are the means of meeting those expectations. The Group's code of conduct outlines the common values and principles shared by its employees. The HYPO NOE Group also avoids business policies and transactions associated with particularly acute legal or tax risks, or with substantial environmental risks. The Group's lending is subject to clear ethical guidelines and business principles, which enable implementation of its comprehensive environmental and social sustainability approach. In this way, the Bank ensures that loans are only extended for purposes that are compatible with its philosophy and sustainability strategy. The ethics guidelines and business principles comprise exclusion criteria and the exercise of particular care in financing environmentally and socially sensitive sectors. They are fundamental to the approach to acquiring new business across the Group. These criteria are also explicitly referred to by the ESG and reputational risk questionnaire that forms part of loan applications.

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

8.8 Other risks

The following types of risk are classified as “other risks”:

- Business risk (the risk of loss resulting from a deterioration in the economic environment or in the HYPO NOE Group's business relationships)
- Strategic risk (the risk 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 developments at an early stage.

8.9 Sustainability risks

In line with the recommendations of the FMA Guide for Handling Sustainability Risks, in drawing up its risk inventory HYPO NOE Landesbank has incorporated sustainability risks into the current main risk categories in its risk map as sub-categories (i.e. reporting the effect on existing types of risk). The risk manuals and strategies have been revised accordingly.

Sustainability risks are limited and managed when approving new lending, as well as by means of regular reviews, using inclusion and exclusion criteria and through defining environmentally and socially sensitive sectors for which the Bank has a heightened duty of care. These measures are supported by an environment, social and governance (ESG) questionnaire for real estate and corporate customers, and by taking ESG indicators into account (corruption index and rule of law indicators) when assessing country ratings.

Other steps taken to monitor sustainability risks include assessment of potential impacts of climate-related risks in specific regions and countries, and their integration into stress tests; evaluation of the lending portfolio with regard to allocation of loans to industries with poor ESG scores by means of an internal sector scoring model, and regular assessment of ethics guidelines and business principles.

At the HYPO NOE Group, ESG measures are integrated into operations as routine activities in individual departments. The Sustainability Committee takes overall responsibility for management of these topics.

HYPO NOE Landesbank assessed its entire loan and securities portfolio to determine which assets meet the definition of financing under the supercategories of the technical evaluation criteria, in accordance with the EU delegated regulation supplementing the Taxonomy Regulation ([EU] 2020/852), which determines the conditions under which an economic activity can be seen as making a significant contribution to climate protection and adaptation to climate change without significantly prejudicing other environmental targets.

8.10 Risk buffer

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

8.11 Latent legal risks

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

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 presentation of the Group's assets, finances and earnings. The scope of consolidation is regularly reviewed. Besides the parent, HYPO NOE Landesbank für Niederösterreich und Wien AG, the Group comprises 52 Austrian subsidiaries (31 Dec. 2022: 53) in which the parent meets the criteria for control as specified by IFRS 10. A total of 14 companies are accounted for using the equity method (31 Dec. 2022: 14).

30 Jun. 2023, EUR '000	Domicile	Interest	of which indirect	Carrying amount as at 30 Jun. 2023	Profit or loss from continuing operations, H1 2023	Segment/ Corporate Center	Reporting date
Joint ventures				**8,255**	**760**		
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	63	-2	Public Sector	30 Jun. 2023
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	735	16	Public Sector	30 Jun. 2023
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	6,471	560	Treasury & ALM	30 Jun. 2023
PPP Campus AM + SEEA GmbH	St. Pölten	50.00%	50.00%	15	-1	Public Sector	30 Jun. 2023
PPP Campus AM + SEEA GmbH & Co KG	St. Pölten	50.00%	50.00%	958	188	Public Sector	30 Jun. 2023
PPP Campus RAP + LGG GmbH	St. Pölten	45.00%	45.00%	14	-1	Public Sector	30 Jun. 2023
PPP Campus RAP + LGG GmbH & Co KG	St. Pölten	45.00%	45.00%	-	-	Public Sector	30 Jun. 2023
Associates				**25,975**	**443**		
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	48.00%	-	2,524	269	Real Estate	30 Jun. 2023
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	2,940	603	Public Sector	30 Jun. 2023
Hotel- und Sportstätten- Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	643	2	Public Sector	30 Jun. 2023
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	273	-29	Public Sector	30 Jun. 2023
NOE Immobilien Development GmbH*	St. Pölten	48.00%	48.00%	16,979	-409	Real Estate	31 Mar. 2023
VIVITliving GmbH	St. Pölten	24.50%	24.50%	2,399	-31	Real Estate	30 Jun. 2023
HYPO NOE Versicherungsservice GmbH	St. Pölten	48.00%	-	217	37	Retail and Corporate Customers	30 Jun. 2023
Total				**34,229**	**1,202**		

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of an investment and that of the consolidated statements.

31 Dec. 2022, EUR '000	Domicile	Interest	of which indirect	Carrying amount as at 31 Dec. 2022	Profit or loss from continuing operations, H1 2022	Segment/ Corporate Center	Reporting date
Joint ventures				**7,495**	**571**		
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	65	-3	Public Sector	31 Dec. 2022
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	719	3	Public Sector	31 Dec. 2022
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	5,910	347	Treasury & ALM	31 Dec. 2022
PPP Campus AM + SEEA GmbH	St. Pölten	50.00%	50.00%	16	-1	Public Sector	31 Dec. 2022
PPP Campus AM + SEEA GmbH & Co KG	St. Pölten	50.00%	50.00%	770	226	Public Sector	31 Dec. 2022
PPP Campus RAP + LGG GmbH	St. Pölten	45.00%	45.00%	15	-1	Public Sector	31 Dec. 2022
PPP Campus RAP + LGG GmbH & Co KG	St. Pölten	45.00%	45.00%	-	-	Public Sector	31 Dec. 2022
Associates				**26,229**	**656**		
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	48.00%	-	2,255	90	Real Estate	31 Dec. 2022
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	3,034	553	Public Sector	31 Dec. 2022
Hotel- und Sportstätten- Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	641	1	Public Sector	31 Dec. 2022
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	302	5	Public Sector	31 Dec. 2022
NOE Immobilien Development GmbH*	St. Pölten	48.00%	48.00%	17,388	7	Real Estate	30 Sep. 2022
VIVITliving GmbH	St. Pölten	24.50%	24.50%	2,430	-	Real Estate	Formation
HYPO NOE Versicherungsservice GmbH	St. Pölten	48.00%	-	180	N/A	Retail and Corporate Customers	31 Dec. 2022
Total				**33,724**	**1,227**		

*In accordance with paragraph 34 IAS 28, adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of an investment and that of the consolidated statements.

Estimation uncertainties and judgements

NOE Immobilien Development GmbH (NID) specialises in property development, housing construction and neighbourhood development, with a focus on Lower Austria and Vienna. It mainly invests in intergenerational housing schemes forming part of municipal urban development projects. The HYPO NOE Group's significant influence over the company is exercised by means of voting rights and the appointment of members of the Group's key management to supervisory board positions.

The recoverable amount of the investment in NID was calculated in accordance with IAS 36 for the purpose of impairment testing. As no material synergy effects are likely, measurement of the recoverable amount is at fair value in accordance with IFRS 13, using the discounted cash flow (DCF) approach as the value in use, in line with the gross method (WACC). Under the WACC approach, the fair value of total capital (enterprise value) is arrived at by discounting free cash flow using the weighted average cost of capital (WACC), a mixed rate comprising weighted equity and borrowing costs. The fair value of equity (equity value) is calculated by deducting the fair value of interest-bearing debt from that of total capital.

In order to calculate the present value of the cash flows, NID's free cash flow was determined on the basis of management's integrated corporate budget and discounted using the WACC. When calculating the WACC for NID, the cost of equity is determined using the CAPM, while borrowing costs are arrived at by reconciling the (median) credit ratings of peer group members with the yield curve (for 30-year maturity) for European corporate bonds corresponding to this rating. The benchmark for the capital structure realisable within the budgeting period is set by the median leverage ratio of the peer groups at fair value, and remains constant over the entire time horizon. NID's pre-tax discount rate (WACC) as at 30 June 2023 was 8.51% (2022: 9.18%).

The time horizon of the medium-term budget drawn up by NID's management is greater than five years, as special factors related to property development must be taken into account so as to arrive at a settled picture. An example of these is the adjustment for funds tied up in regulatory provisions for any warranty claims after apartment handovers. The CAGR of EBIT during the 2023-2032 budgeting phase is 2.76% (2022: 5.7%), and that in the subsequent pension phase is zero (2022: zero).

% **NID: key assumptions**	30 Jun. 2023	31 Dec. 2022
Pre-tax discount rate (WACC)	8.51%	9.18%
CAGR in the budgeting phase	2.76%	5.70%
Long-term growth rate in the pension phase	0.00%	0.00%

The budget that serves as the basis for determining the recoverable amount assumes delays in obtaining planning permission for some property projects due to the Covid-19 pandemic. In addition, due to the Ukraine war and inflationary factors, appropriate assumptions were made with regard to existing projects and acquisitions included in the medium-term budgeting, in order to adjust to high construction cost increases, unforeseeable interruptions in supply chains and rising borrowing costs. At the same time, there was a significant increase in the discount rate for NID in 2022 – though by 30 June 2023 this had receded slightly.

Another positive influence on the budgeting work was the reduction in the average cycle time for the overall project portfolio due to management's expectation of a growing proportion of projects realised by way of share deals/forward purchases instead of individual home sales.

Application of the equity method resulted in a positive equity valuation of EUR 591thsd for NID as at 30 June 2023, which reflected the company's run of positive results. Impairment testing indicated a need to recognise impairment losses of EUR 999thsd on NID's investments accounted for using the equity method as at 30 June 2023. This was primarily due to the lower recoverable amount as a result of the lasting increase in project costs (borrowing costs and construction price rises), labour costs and the adjustment of the developer fee.

Change in fair value in EUR '000 **Sensitivity analysis**	30 Jun. 2023	31 Dec. 2022
25 bp increase in pre-tax discount rate	-1,242	-1,154
25 bp decrease in pre-tax discount rate	1,300	1,210

9.2 Disclosures on related-party relationships

Estimation uncertainties and judgements

The transfer prices between the HYPO NOE Group and related parties are arm's length prices. The State of Lower Austria's guarantees of loans and advances extended to third parties by HYPO NOE Landesbank, listed in the table below, are likewise all concluded on market terms.

30 Jun. 2023 EUR '000 **Open balances**	Parent companies	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties	Identified staff
Selected financial assets	**2,357,601**	**125,708**	**447,397**	**13,020**	**4,572**	**2,083**
Equity instruments	-	2	25,975	8,255	203	-
Bonds	30,601	-	-	-	-	-
Loans	2,327,000	125,706	421,422	4,765	4,369	2,083
Selected financial liabilities	**271,337**	**161**	**45,912**	**812**	**16,810**	**2,301**
Deposits	271,337	161	45,912	812	16,810	2,301
Nominal value of loan commitments, financial guarantees and other commitments	**456,656**	**38,683**	**27,744**	**2,450**	**650**	**281**
Loan commitments, financial guarantees and other commitments received	**2,952,820**	**-**	**-**	**-**	**-**	**-**
Nominal value of derivatives	**778,202**	**85,000**	**-**	**-**	**-**	**-**
Current period						
Interest income	37,677	1,978	5,761	175	81	21
Interest expense	-3,254	-416	-56	-	-108	-29
Dividend income	-	-	697	-	-	-
Fee and commission income	468	1	108	6	10	-

Settlement agreements were made with parent companies. Details are shown in Note 6.1 Provisions.

31 Dec. 2022 EUR '000 **Open balances**						
Selected financial assets	**2,548,354**	**121,668**	**428,024**	**12,417**	**5,732**	**1,490**
Equity instruments	-	-3	26,229	7,495	219	-
Bonds	30,432	-	-	-	-	-
Loans	2,517,922	121,671	401,795	4,922	5,513	1,490
Selected financial liabilities	**141,899**	**533**	**52,649**	**698**	**17,375**	**2,431**
Deposits	141,899	533	52,649	698	17,375	2,431
Nominal value of loan commitments, financial guarantees and other commitments	**655,837**	**42,729**	**21,824**	**2,473**	**969**	**319**
Loan commitments, financial guarantees and other commitments received	**2,837,444**	**-**	**-**	**-**	**-**	**-**
Nominal value of derivatives	**777,484**	**85,000**	**-**	**-**	**-**	**-**
Current period						
Interest income	41,764	2,093	8,070	358	75	13
Interest expense	-10,494	-	-8	-	-6	-8
Dividend income	-	-	670	-	-	-
Fee and commission income	-824	2	232	16	23	1

10 EVENTS AFTER THE REPORTING PERIOD

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

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that, to the best of our knowledge, the condensed 2023 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 2023 interim consolidated financial statements. Essentially the same accounting policies were applied as to the financial statements for the year ended 31 December 2022.

St. Pölten, 8 August 2023
The Management Board

Wolfgang Viehauser
Management Board Member Markets and Speaker of the Board

responsible for

Sales Strategy, Digitalisation & Retail Banking, Marketing & Communication, Public Sector, Corporate Customers, Real Estate and Treasury & ALM; press spokesman

Udo Birkner
Management Board Member Finance, Risk & Operations

responsible for

Group General Secretariat, Human Resources & Law, Compliance, AML & Regulatory, Finance, Risk, Operations/Organisation & IT, and Internal Audit

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Important information

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.

The German version of this report is definitive. The English version is a translation of the German report.