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HYPO NOE Landesbank fur Niederosterreich und Wien AG

Primary Credit Analyst:
Maria Lebedeva, Frankfurt +49 69 3399 9259; maria.lebedeva@spglobal.com

Secondary Contact:
Anna Lozmann, Frankfurt + 49 693 399 9166; anna.lozmann@spglobal.com

Table Of Contents

Table Of Contents (cont.)

HYPO NOE Landesbank fur Niederosterreich und Wien AG

Rating Score Snapshot

Issuer Credit Rating
A/Stable/A-1

SACP: bbb+ → **Support: +2** → **Additional factors: 0**

SACP: bbb+		
Anchor	a-	
Business position	Constrained	-2
Capital and earnings	Very strong	+2
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

Support: +2	
ALAC support	0
GRE support	+2
Group support	0
Sovereign support	0

Issuer credit rating
A/Stable/A-1

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	**Key risks**
Very strong capitalization.	Relatively low operating profitability and efficiency.
Very strong link to and important role for the State of Lower Austria, the bank's 100% owner.	Limited geographic diversity and large reliance on public-sector-related business.

S&P Global Ratings anticipates Austria-based Hypo NOE Landesbank fur Niederosterreich und Wien AG's (Hypo NOE's) performance will remain sound. We expect the bank to uphold its very strong capital buffer and good asset quality throughout 2026. We expect a marginal deterioration of asset quality metrics in 2024, reflecting the bank's exposure – although low – to the stressed real estate sector. We expect the asset quality to remain better than other Austrian peers, reflecting the bank's business focus on the public sector.

Performance is structurally lagging behind peers', but strong capitalization continues to support the rating. With a 8.1% return on equity (S&P Global Ratings-calculated) at end-2023, the bank's performance has further improved benefiting from high interest rates, but it remains behind that of the commercial peers' average, leaving the management team less room to maneuver in adverse scenarios. However, relatively low returns reflect Hypo NOE's focus on very low risk public sector related business, which, together with low dividend payouts to the owners, results in stable and sufficient internal capital generation through the cycle. We expect Hypo NOE's risk-adjusted capital (RAC) ratio will remain very strong at around 18% over the next two years.

We expect Hypo NOE's important role for and very strong link to the State of Lower Austria (AA/Stable/A-1+) will continue to support its creditworthiness. The bank is fully owned by the state and has an important role in public sector-related lending. In the event of financial stress, we believe there is a high likelihood that Lower Austria would provide sufficient extraordinary support. This is reflected in the two-notch uplift we incorporate in our 'A' long-term issuer credit rating on Hypo NOE. We also incorporate ongoing support in our stand-alone credit profile (SACP) of the bank, as we believe that state ownership and backing reinforces customer confidence in the bank and contributes to the stability of the franchise and funding.

Outlook

The stable outlook balances our view that Hypo NOE will maintain very strong capital, supported by contained loan losses, against moderate bottom-line profitability. We also expect the bank's franchise will continue to benefit from its ownership by Lower Austria and the high likelihood of receiving extraordinary support in the event of financial stress.

Downside scenario

A downgrade would require a two-notch downward revision in our view of Hypo NOE's SACP. A downgrade to the owner, Lower Austria, would also result in us downgrading the bank. Although less likely, a change in Hypo NOE's role for or link with the state could lead us to reassess the bank's government-related entity status and result in a downgrade.

Upside scenario

An upgrade is a remote scenario, in our view. We could take a positive rating action on Hypo NOE if it continued to improve its operational performance while maintaining a low-risk posture in its strategy and very strong capital, including a RAC ratio sustainably above 15%. However, in this scenario, we would only raise the rating if we considered the bank's creditworthiness in line with that of higher-rated peers, which is unlikely considering its niche and regional focus.

Key Metrics

HYPO NOE Landesbank fur Niederosterreich und Wien AG--Key ratios and forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2022a**	**2023a**	**2024f**	**2025f**	**2026f**
Growth in operating revenue	1.0	35.9	(14.9)-(18.2)	(2.7)-(3.3)	1.4-1.7
Growth in customer loans	(0.9)	2.2	2.2-2.7	1.8-2.2	1.8-2.2
Growth in total assets	(9.8)	3.0	0.8-1.0	1.5-1.8	1.4-1.8

HYPO NOE Landesbank fur Niederosterreich und Wien AG--Key ratios and forecasts (cont.)					
	--Fiscal year ended Dec. 31--				
(%)	2022a	2023a	2024f	2025f	2026f
Net interest income/average earning assets (NIM)	1.0	1.2	1.1-1.2	1.0-1.2	1.0-1.2
Cost to income ratio	61.1	49.5	58.9-62.0	63.2-66.5	64.8-68.1
Return on average common equity	6.2	8.1	4.3-4.7	3.7-4.1	3.4-3.8
Return on assets	0.3	0.4	0.2-0.3	0.2-0.2	0.2-0.2
New loan loss provisions/average customer loans	0.0	0.2	0.2-0.2	0.1-0.2	0.1-0.2
Gross nonperforming assets/customer loans	1.1	2.6	2.9-3.2	2.5-2.7	2.2-2.4
Net charge-offs/average customer loans	0.1	0.4	0.2-0.2	0.2-0.2	0.1-0.1
Risk-adjusted capital ratio	17.3	18.0	18.0-19.0	18.0-19.0	18.0-19.0

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: The 'a-' Anchor Reflects Hypo NOE's Focus On Austria

We use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine the anchor. The 'a-' anchor reflects Hypo NOE's operations and domicile in Austria.

Our economic risk assessment is based on Austria's highly competitive and diverse economy, with strong economic fundamentals, high integration in Western European economies, and strong ties to Eastern and Southeastern Europe. After broad stagnation in 2023, we anticipate Austria's economic growth to remain at about 0.9% in real terms in 2024. The adverse effects of the Russia-Ukraine war continue to weigh on the open and export-oriented economy. We think that nonperforming loans (NPLs) are likely to rise moderately in the next 12-24 months reflecting current economic fragilities. However, in our view, the second-round effects on the banking system from the war in Ukraine will be manageable.

We consider that Austria's prudential regulatory standards are in line with the EU's and that banks' funding conditions remain comfortable, reflecting a large share of customer deposits. Austrian banks are among the largest beneficiaries of rising interest rates, also reflecting a still-material share of variable interest rate lending, which allows quick repricing on the asset side. However, the average cost-to-income ratio of domestic banks remains mediocre in a broader international context. We highlight that it remains crucial that banks continue to tackle inefficiencies to remain competitive throughout the cycle.

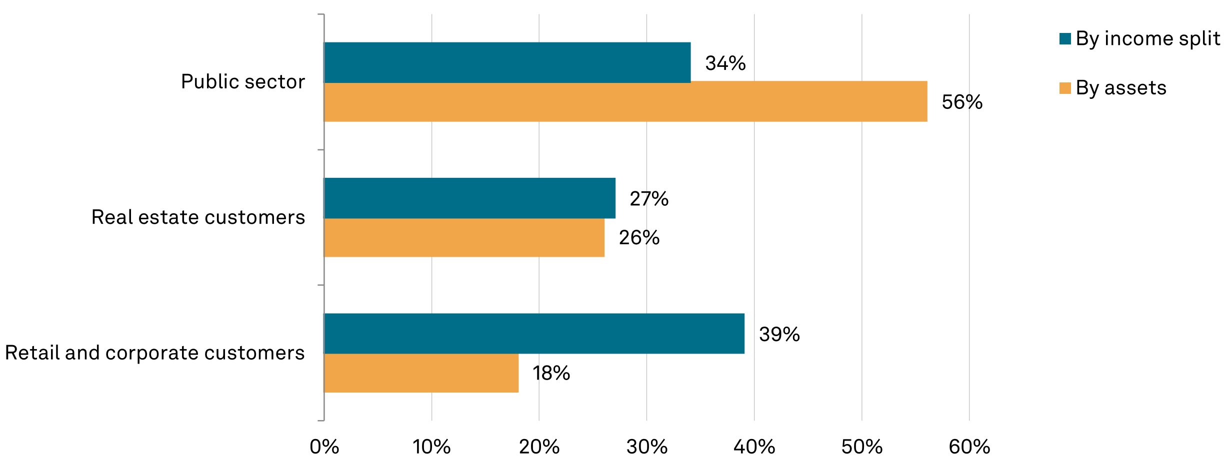
Business Position: A Geographically Concentrated Business Model With Relatively Low Efficiency

Business strength lags that of most peers. We view Hypo NOE's concentrated business model, which focuses on the public sector and public sector-related real estate in Lower Austria, as a key factor that constrains the rating. We believe this concentration makes the bank more sensitive to downside scenarios than its more diversified, stronger performing peers. Nevertheless, a very low-risk business focus, strong market share of about 24% in Lower Austria, and solid brand recognition in its home market, reinforced by the public ownership and backing, result in stable earnings and partly mitigate the risks. We view strategic ownership support from Lower Austria and implicit benefits as critical for the stability of the bank's business model.

Hypo NOE's business focus is on lending and leasing to the public sector and nonprofit housing. The bank is relatively small, with reported total assets of €15.6 billion at end-2023. However, on the local scale in Lower Austria, we expect Hypo NOE to remain the dominant player in the public finance niche area. In recent years, the bank has increased the share of its business in higher-margin (and higher-risk) segments to improve its net interest margins. This includes selective business outside Austria, also real estate project finance. However, overall, this exposure has a minor share in the total portfolio, and we don't think it is likely to affect the bank's overall risk profile and creditworthiness.

Chart 1

Hypo NOE's exposures are mostly towards public sector



Data as of end-2023. Breakdown excludes the corporate center segment and treasury and ALM. Sources: Hypo NOE, S&P Global Ratings.

Hypo NOE's focus remains on addressing its heavy cost base. Like many local and European peers, Hypo NOE's cost-to-income metrics improved noticeably at year-end 2023, to 49.5%, but we do not consider this improvement as sustainable and reflective of the underlying operations. Benefits from higher interest rates are likely to decrease as funding costs increase and higher operational and risk costs are likely to dent medium-term profitability. We believe Hypo NOE's bottom-line profitability will remain constrained by its low-margin asset profile, and ongoing expense for modernization and digitalization.

Capital And Earnings: Very Strong Capitalization Due To Low-But-Stable Internal Capital Generation, Supported By Conservative Dividend Policy Over The Cycle

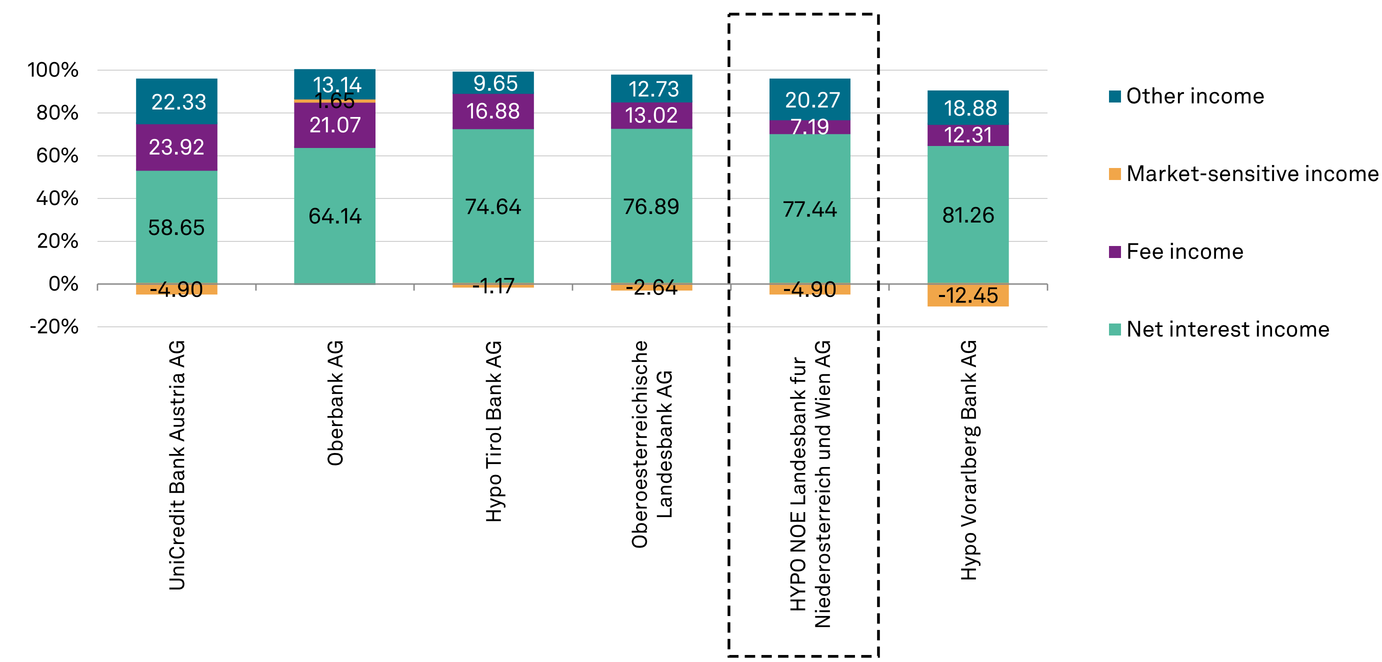
We view Hypo NOE's capital buffer as very strong. We expect the bank's capital position will remain a key rating strength, underpinned by our expectation that our RAC ratio will stagnate at about 18% over the next two years. Hypo NOE has a comfortable margin in its regulatory capital requirements, with a consolidated common equity Tier 1 ratio of 20.9% at end-2023. In our base-case scenario, we expect the sole shareholder to keep the capital in the bank with no extraordinary dividends, apart from the one-off dividends increase to €20 million in 2024 reflecting the very good financial results in 2023.

The RAC projection reflects our view that benefits of the increased net interest margins on the bottom line will slightly outweigh the increase in risk and operational costs, which result from high inflation and economic slowdown. We project annual net income averaging about €35 million over the next two years. This is based on the improved net interest margins and loan growth of about 2%. We expect risk costs averaging approximately 20 bps throughout 2026. We believe Hypo NOE's moderate dividend policy over the cycle, with payouts of about €4 million per year (except for the one-off high distribution in 2024) will continue to support gradual-but-sustainable internal capital accumulation.

Chart 2

Hypo NOE relies on net interest income more than peers

Breakdown of operating revenues



The selected peer group only includes rated Austrian banks which are focused predominantely on the Austrian market.

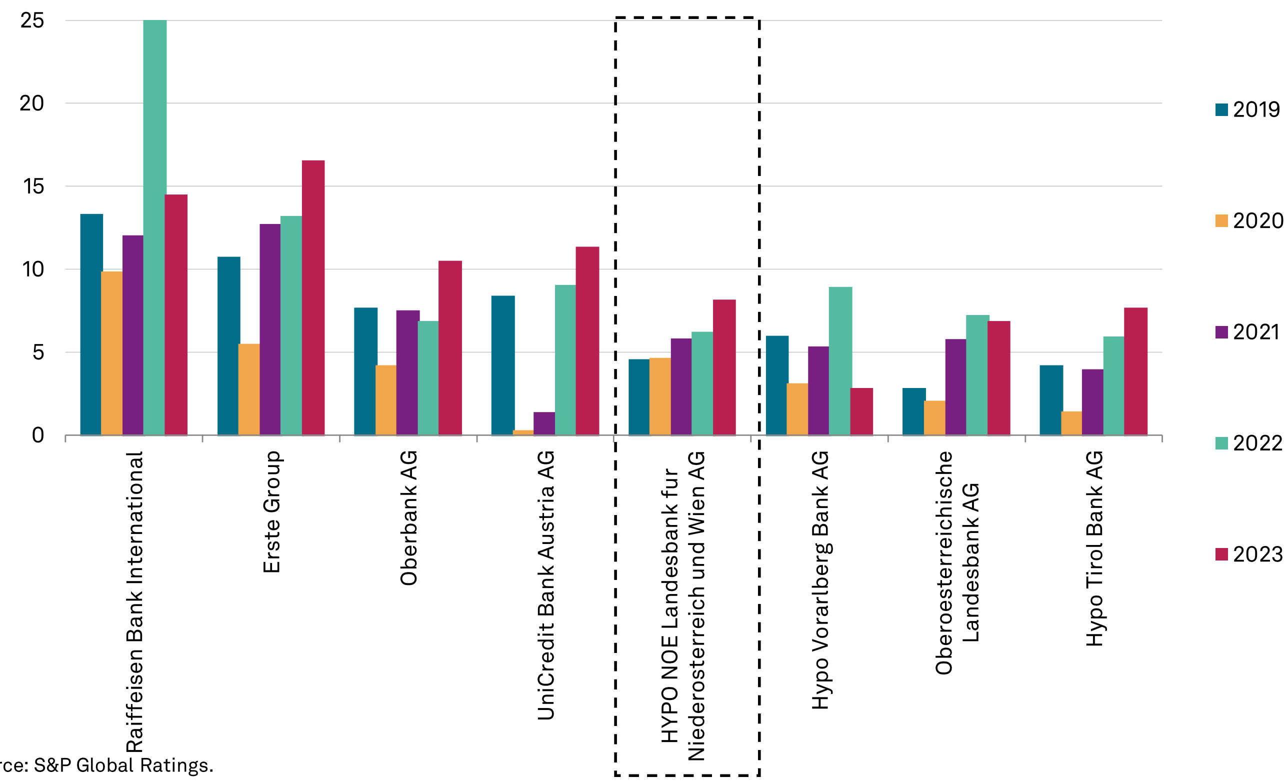
Data as of Dec. 31, 2023. Source: S&P Global Ratings.

While returns are structurally low, we regard the quality of earnings as sufficient in the context of the bank's business focus and only low growth. We believe Hypo NOE's focus on low-margin segments, such as the public sector and nonprofit housing, will continue to constrain the bank's earnings capacity, but support relatively stable core operating performance. We continue to view the bank as having good quality of capital because our total adjusted capital comprises solely common equity.

Chart 3

Hypo NOE's profitability is lower but more stable compared to large local peers

Return on average common equity (%)

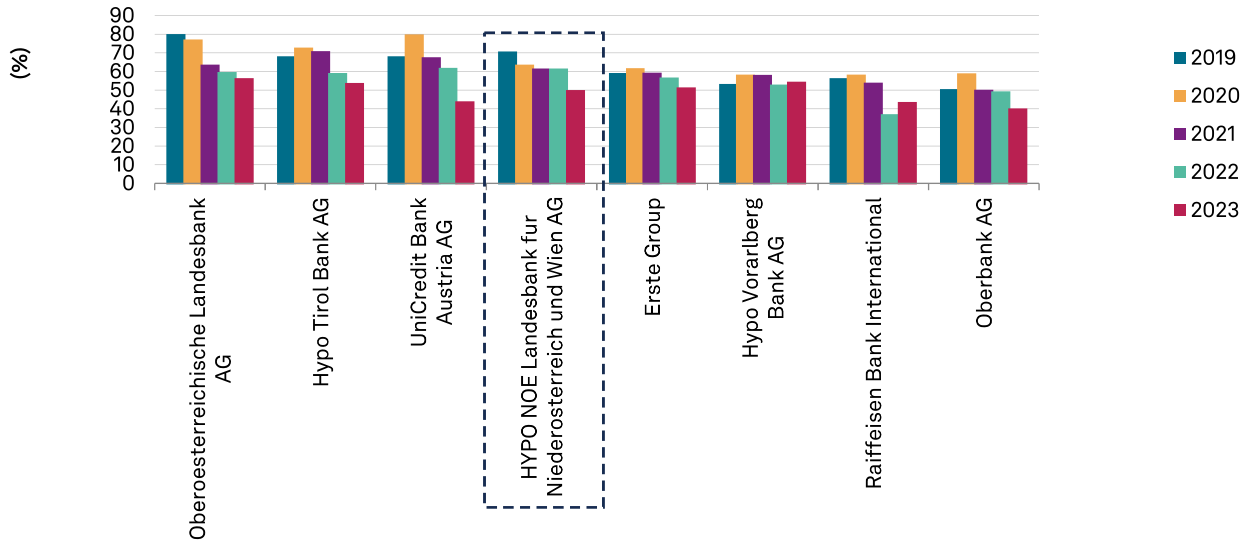


Source: S&P Global Ratings.

Chart 4

Hypo NOE's cost efficiency lags most of its large local peers'

Cost-to-income ratio



Source: S&P Global Ratings.

Risk Position: Regional And Business Concentration Is The Major Vulnerability

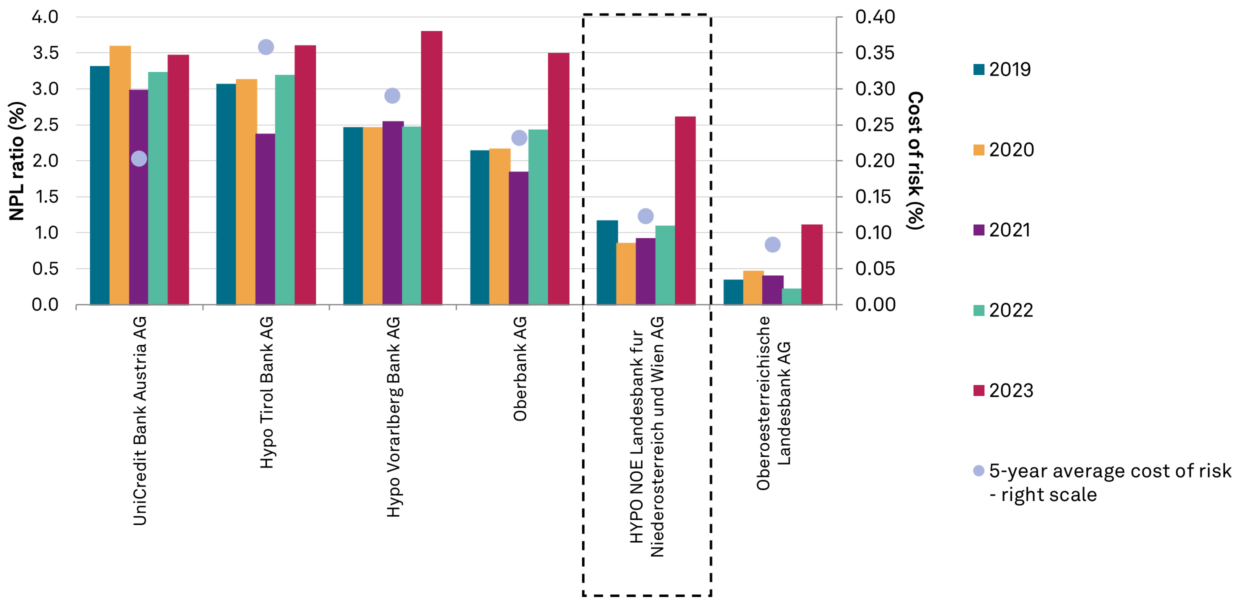
Hypo NOE geographic and business concentration makes it more vulnerable to developments in the regional economy. This is a relative weakness compared with more diversified, international, retail-oriented banks. The bank's generally highly collateralized loan book, low risk appetite and strong risk metrics partially balance the regional and business concentration in real estate in our view.

We consider most of Hypo NOE's €12.4 billion gross customer loan book low risk. The loans include lending and leasing to the public sector (about 54% of total loans) and nonprofit housing agencies (about 18%). The remaining part of the portfolio consists of retail and corporate banking (18%) and commercial real estate and real estate project finance (10%). The latter two segments exhibit comparably weaker risk metrics.

The breakdown of Hypo NOE's credit risk exposures similarly highlights the large share of government exposures. Due to the bank's limited size and business model, its single-name concentration is significantly higher than peers'. The 20 largest customers account for slightly over 420% of total adjusted capital. These exposures are mainly towards the public sector, and well-collateralized and low-risk nonprofit housing agencies. We expect losses from these exposures to remain limited in our base-case scenario.

Chart 5

We expect Hypo NOE's low risk business model to further support its asset quality
NPL-ratio and cost of risk (%)



NPL-ratio is defined as gross nonperforming assets divided by customer loans. Cost of risk is defined as new loan loss privisions as % of average customer loans. The selected peers include rated Austrian banks focused predominantely on the Austrian market. Source: S&P Global Ratings.

We expect strong asset quality metrics through the cycle. Across Austria, we expect NPLs to further rise moderately in 2024, reflecting the pressure of higher interest rates on households' repayment capacity and likely increasing the insolvency rate among corporates, particularly in cyclical industries, such as CRE. This will likely affect Hypo NOE too, although we believe to a lesser extent than most domestic peers. This is due to the composition of its loan book with low exposure to corporates and small and midsize enterprises, high collateralization of its real estate book, and currently strong asset quality metrics. The bank's NPL ratio (S&P Global Ratings-calculated) increased in line with peers' development, to 2.6% at end-2023 but remains below the Austrian rated peers' average.

The planned expansion into nonpublic sector related--and hence risker--business segments can result in some deterioration of the asset quality metrics, but is unlikely to alter the bank's risk profile materially. Higher risk costs and NPLs could stem from the bank's intention to expand into more profitable, but riskier, new business – for instance, in the small and midsize enterprise segment. This or further expansion of exposures to the real estate project finance segment could translate into RWAs climbing beyond our projections over the next two years.

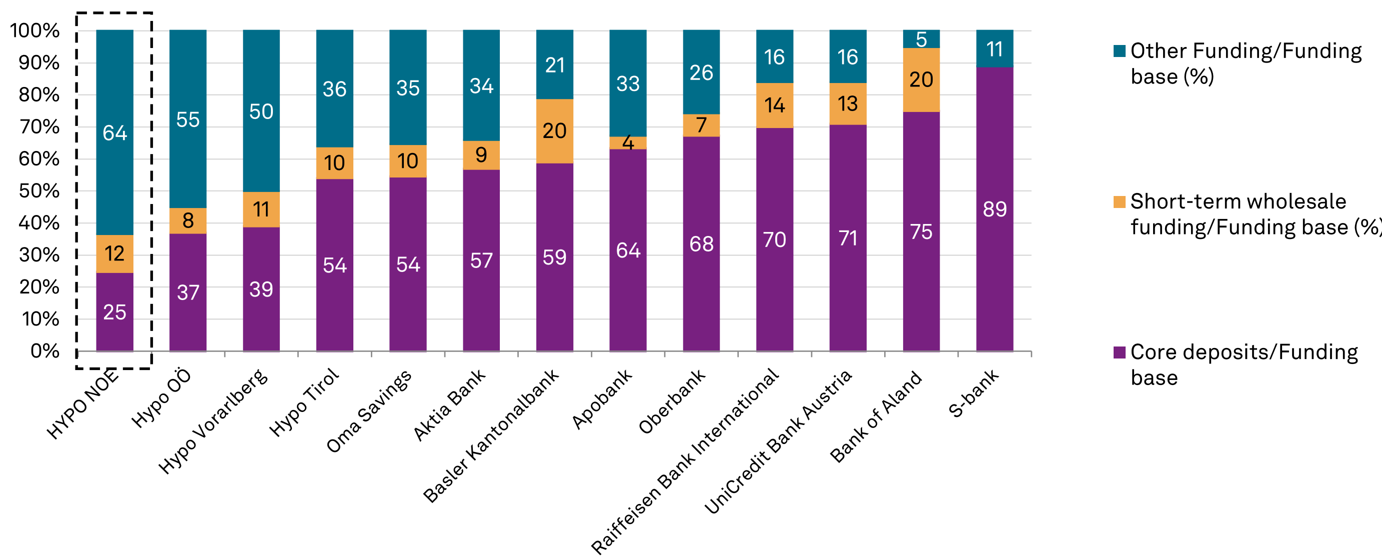
Funding And Liquidity: The Bank Benefits From Implicit State Support

We expect that Hypo NOE's link with the state will continue to support its solid funding profile. We believe the bank's ownership by Lower Austria materially reduces its sensitivity to market confidence and supports stability of customer deposits and its access to capital markets during turbulent times.

We expect Hypo NOE will continue relying on the capital markets to fund its loan book. As of end-2023, its wholesale funding (covered bonds, senior unsecured bonds, and other debt instruments) made up 75% of its funding base. This is higher than for most rated Austrian banks. However, above 60% of the wholesale funding consists of public sector and mortgage covered bonds, which we regard as stable and reliable sources of funding in Austria. In this context, we don't see it as a weakness that our stable funding ratio of 99% at end-2023 is lower than that of peers.

Chart 6

Hypo NOE remains primarily wholesale-funded

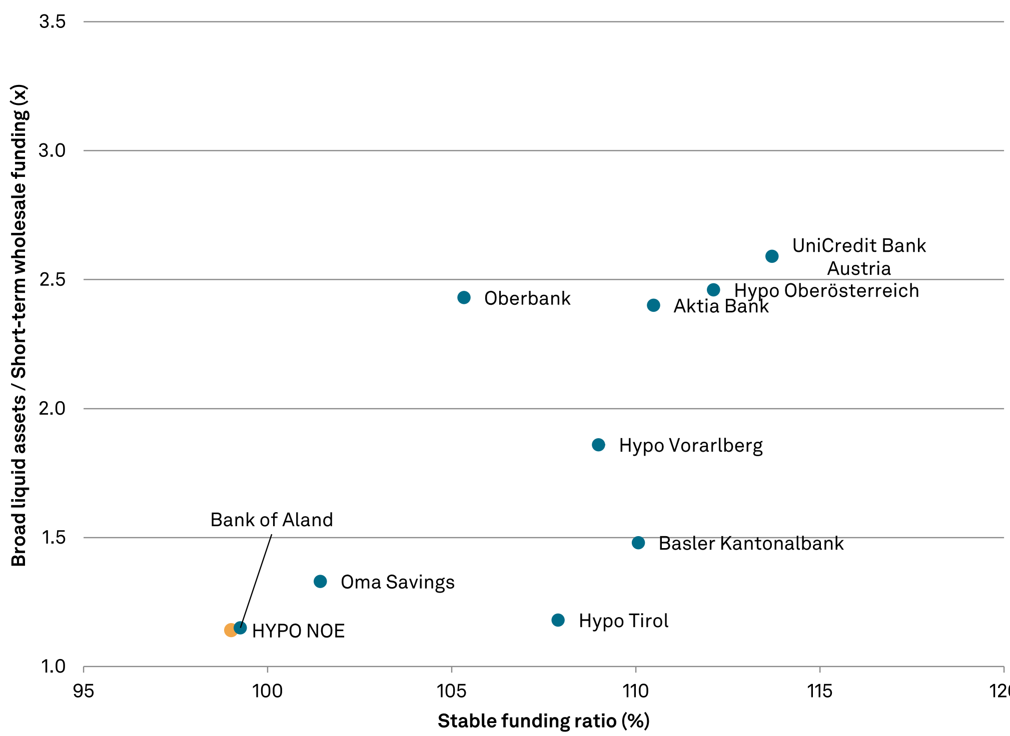


Data as of YE-2023. Data for Apobank is as of end June-2023. Source: S&P Global Ratings.

The bank's broad liquid asset to short-term wholesale funding ratio was 1.1x at end-2023. We believe available cash reserves and free collateral for retained covered bonds provide sufficient capacity to manage adverse scenarios. Stress testing of liquidity inflows and outflows indicates that in the event of the closure of access to capital market funding and a significant deposit outflow, Hypo NOE could survive for more than six months, although reliance on central bank funding would likely increase significantly in such a scenario.

Chart 7

Hypo NOE's funding and liquidity metrics are slightly lower, but in line with peers'



*Data for Basler, Apobank is as of end June-2023. Source: Arrow Global.

Support: Two Notches Of Uplift Reflect A High Likelihood Of Extraordinary Government Support From Its State Owner

Our long-term issuer credit rating on Hypo NOE is two notches higher than the SACP because we see a high likelihood of the bank receiving timely and sufficient extraordinary support from the government of Lower Austria if needed. We expect Lower Austria will remain both supportive of Hypo NOE and a long-term shareholder of the bank. We base our assessment on the bank's:

- Important role for Lower Austria, because a default could tarnish Lower Austria's reputation and Hypo NOE's support of regional economic and social objectives; and
- Very strong link with the government, owing to its very strong and durable relationship with the state. We do not anticipate changes to Lower Austria's full ownership.

We understand Hypo NOE is subject to an open bank resolution scenario, but this does not provide additional protection to senior unsecured creditors in our view. The bank is not required to issue subordinated instruments under its minimum requirement for own funds and eligible liabilities. As long as this is the case, we don't expect Hypo NOE to issue material amounts of senior nonpreferred or other subordinated instruments that serve as buffers for senior unsecured creditors.

Environmental, Social, And Governance

We see ESG credit factors for Hypo NOE as broadly in line with those of industry and Austrian peers. We acknowledge the bank's increasing focus on green lending, and believe its ownership and business model, with a focus on public lending and real estate, support these efforts. Hypo NOE first entered green capital market funding by issuing a green senior bond in 2020. Green senior bond financing now accounts for about 11% of the bank's total funding base.

Issue Ratings

The 'BBB-' issue rating on Hypo NOE's nondeferrable subordinated debt is two notches lower than the bank's SACP. The SACP indicates our view of a bank's creditworthiness without extraordinary support from the government. We believe that by notching from the SACP assessment, instead of from the long-term issuer credit rating, we better capture the risk of an increased uncertainty of government support for subordinated debt issues.

Key Statistics

Table 1

HYPO NOE Landesbank fur Niederosterreich und Wien AG--Key figures

	--Year ended Dec. 31--				
(Mil. €)	**2023**	**2022**	**2021**	**2020**	**2019**
Adjusted assets	15,579	15,121	16,763	16,416	14,571
Customer loans (gross)	12,430	12,163	12,270	11,383	10,842
Adjusted common equity	819	775	730	692	663
Operating revenues	228	168	166	166	157
Noninterest expenses	113	103	101	105	110
Core earnings	66	47	42	32	30

Table 2

HYPO NOE Landesbank fur Niederosterreich und Wien AG--Business position

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Total revenues from business line (currency in millions)	228.3	168.0	166.4	166.6	157.4
Commercial & retail banking/total revenues from business line	61.9	80.9	86.1	79.4	82.2
Trading and sales income/total revenues from business line	26.4	27.3	24.0	20.3	17.0
Other revenues/total revenues from business line	11.7	(8.2)	(10.1)	0.3	0.9
Investment banking/total revenues from business line	26.4	27.3	24.0	20.3	17.0
Return on average common equity	8.1	6.2	5.8	4.6	4.5

Table 3

HYPO NOE Landesbank fur Niederosterreich und Wien AG--Capital and earnings

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	20.9	20.5	19.4	17.9	19.2
S&P Global Ratings' RAC ratio before diversification	18.0	17.3	16.3	16.1	17.9
S&P Global Ratings' RAC ratio after diversification	9.6	14.5	13.8	7.3	10.8
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	77.4	84.6	84.4	77.7	75.0
Fee income/operating revenues	7.2	9.0	11.3	10.4	10.9
Market-sensitive income/operating revenues	(4.9)	5.2	(0.8)	2.3	3.2
Cost to income ratio	49.5	61.1	61.0	63.1	70.2
Preprovision operating income/average assets	0.8	0.4	0.4	0.4	0.3
Core earnings/average managed assets	0.4	0.3	0.3	0.2	0.2

RAC--Risk-adjusted capital.

Table 5

HYPO NOE Landesbank fur Niederosterreich und Wien AG--Risk position

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Growth in customer loans	2.2	(0.9)	7.8	5.0	5.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification	87.8	19.5	18.7	121.5	66.4
Total managed assets/adjusted common equity (x)	19.0	19.5	23.0	23.7	22.0
New loan loss provisions/average customer loans	0.2	0.0	0.1	0.2	0.1
Net charge-offs/average customer loans	0.4	0.1	0.1	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	2.6	1.1	0.9	0.8	1.2
Loan loss reserves/gross nonperforming assets	32.7	60.3	70.1	71.6	51.5

RWA--Risk-weighted assets.

Table 6

HYPO NOE Landesbank fur Niederosterreich und Wien AG--Funding and liquidity

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Core deposits/funding base	24.8	24.9	25.4	29.6	33.3
Customer loans (net)/customer deposits	356.7	362.3	321.7	267.9	258.5
Long-term funding ratio	89.1	89.4	94.1	94.4	89.0
Stable funding ratio	99.0	97.8	108.9	112.5	98.0
Short-term wholesale funding/funding base	11.6	11.2	6.2	5.9	11.6
Regulatory net stable funding ratio	115.6	112.5	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	1.1	1.1	2.8	3.5	1.2
Broad liquid assets/total assets	11.8	11.0	15.6	18.1	11.7
Broad liquid assets/customer deposits	53.3	49.8	68.8	70.5	40.8

Table 6

HYPO NOE Landesbank fur Niederosterreich und Wien AG--Funding and liquidity (cont.)

	--Year ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Net broad liquid assets/short-term customer deposits	8.3	6.1	49.2	55.9	7.3
Regulatory liquidity coverage ratio (LCR) (%)	236.0	162.9	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	15.4	15.0	8.3	8.3	17.4
Narrow liquid assets/3-month wholesale funding (x)	N/A	N/A	14.0	18.2	7.3

N/A--Not applicable.

Hypo Noe Landesbank fur Niederosterreich und Wien AG--Rating component scores

Issuer Credit Rating	A/Stable/A-1+
SACP	bbb+
Anchor	a-
Economic risk	2
Industry risk	3
Business position	Constrained
Capital and earnings	Very strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+2
ALAC support	0
GRE support	+2
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, Apr. 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Austrian Banks In 2024: Downside Risks Are Contained, Apr. 18, 2024
- Economic Outlook Eurozone Q2 2024: Labor Costs Hinder Disinflation As Rate Cuts Loom, Mar. 26, 2024
- Lower Austria, Feb. 12, 2024
- Banking Industry Country Risk Assessment: Austria, Aug. 1, 2023
- HYPO NOE Landesbank fur Niederosterreich und Wien AG, Mar. 23, 2023

Ratings Detail (As Of June 11, 2024)*	
HYPO NOE Landesbank fur Niederosterreich und Wien AG	
Issuer Credit Rating	A/Stable/A-1
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB-
Issuer Credit Ratings History	
29-Apr-2020	A/Stable/A-1
30-May-2018	A/Positive/A-1
13-Aug-2014	A/Stable/A-1
Sovereign Rating	
Austria	AA+/Stable/A-1+
Related Entities	
Lower Austria (State of)	
Issuer Credit Rating	AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.