Investor newsletter
10 November 2020

Strong performance of operating business leads to higher net profit in Q1-Q3 2020

Highlights Q1–Q3 2020

- Net profit up 8.9% and operating profit 27.0% higher compared with the first nine months of 2019
- Consistently strong core earnings: 10.9% increase in net interest income compared with Q1-Q3 2019; net fee and commission income stable year on year, and 5.7% up on the comparative period in Q3
- Administrative expenses down 3.9% on Q1-Q3 2019, CIR at 55.10% as at 30 September 2020
- NPL ratio at a record low of 0.84% at 30 September 2020 (31 Dec. 2019: 0.96%), low risk costs at expected levels despite provisioning for effects of the Covid-19 pandemic
- Strong CET1 ratio of 17.56% (pro forma figure incl. interim result: 18.40%) at the end of the reporting period

Increasing profitability due to successful core business

In the course of this year, the HYPO NOE Group has focused on the systematic implementation of its fine-tuned Fokus 25 strategy. This has enabled the Group to extend its strong performance over previous reporting periods and further enhance profitability based on its operating activities. The Bank put in a particularly strong showing in terms of core earnings. Net interest income jumped by 10.9% to EUR 96.3m during the first nine months of 2020, up from EUR 86.9m in the same period a year earlier. Although fewer personal consultations were held with customers due to the Covid-19 situation, net fee and commission income held steady at EUR 13.2m; however, this item increased significantly year on year in the third quarter, by 5.7%.

Against the backdrop of increased market volatility, net measurement gains remained positive, at EUR 0.7m (Q1-Q3 2019: EUR 6.0m), which reflected the Group's conservative balance sheet structure. This decline was more than offset by robust core earnings – as a result, operating income[1] rose by 4.4% to EUR 123.6m. At the same time, administrative expenses[2] were reduced once again, by 3.9% compared with the like period of 2019. As a consequence, operating profit (before risk costs) surged by 27.0% to EUR 40.3m, and the cost/income ratio (CIR) improved to 55.10% (Q1-Q3 2019: 61.91%).

Risk costs remain at normal levels

Risk costs remained low at normal levels during the first nine months of 2020, at EUR -2.7m (Q1-Q3 2019: positive by EUR 3.6m due to the reversal of risk provisions). In order to address current macroeconomic uncertainties and their potential impact on the loan portfolio, additional risk provisions for effects related to the coronavirus pandemic were recognised in the ECL models. The Group has no significant exposures to industries that have been particularly badly affected by the crisis, as the portfolio is mainly geared towards low-risk financing for infrastructure and housing construction.

[1] After exceptional effects (measurement of the contingent additional HETA purchase price, and allocation to the provision for negative interest rates payable by corporate customers): EUR 125.2m (Q1-Q3 2019: EUR 117.7m)
[2] After exceptional effects (allocation to the resolution and deposit insurance fund, and financial stability contribution instalment payments): EUR 69.0m (Q1-Q3 2019: EUR 72.9m)

Higher net profit related to operating activities

Profit attributable to owners of the parent (net profit) rose appreciably by 8.9% to EUR 28.7m during the reporting period (Q1-Q3 2019: EUR 26.4m). This was primarily due to strong results in the customer business and a further reduction in the cost base, which has shrunk continuously over the past few years.

Balance sheet dominated by receivables from customers

With new lending at a solid EUR 1.2bn during the first three quarters, the financial assets – AC item was 6.5% higher than at year-end 2019, at EUR 13.2bn. This new lending was spread broadly across the Group's business segments and was on budget – in terms of both volumes and margins – despite the Covid-19 pandemic.

Although the operating environment was testing, with greater volatility on the markets, the Group secured long-term refinancing at an early stage of the year. Following two successful benchmark issues – a mortgage-backed covered bond in May and a debut senior preferred green bond in June – HYPO NOE Landesbank participated in the European Central Bank's TLTRO III programme at the end of the first half. This ensured unlimited access to the capital markets even during the crisis. Due to the ECB tender and the take-up of pre-funding for repayments due in the second half of this year, financial liabilities – AC rose to EUR 14.8bn, up from EUR 12.5bn at year-end 2019. This led to a temporary increase in total assets to EUR 17.0bn as at 30 September 2020.

Strong solvency and low-risk portfolio

The HYPO NOE Group reported a Common Equity Tier 1 (CET1) ratio of 17.56% at the end of the reporting period – well above the national and EU averages[3]. Taking account of the interim result and linear prorating of regulatory costs, the CET1 ratio was 18.40%, even though the SME supporting factor – a form of relief provided for under the CRR – has not yet been applied. Consequently, the HYPO NOE Group's capitalisation was more than five percentage points above the minimum regulatory requirement including the SREP at the end of the third quarter of 2020. The Financial Market Stability Board (FMSB), which is based at the Austrian Ministry of Finance, intends to reduce the systemic risk buffer for Austrian mortgage banks from the current 1.0% to 0.5% in December 2020.

The non-performing loan (NPL) ratio remained at an all-time low, standing at 0.84% as at 30 September 2020 (31 Dec. 2019: 0.96%). The consistently low ratio is testimony to the high quality of the HYPO NOE Group's lending portfolio, its low-risk business model and proactive intensive care management. The NPL coverage ratio remained high, coming in at 81.61% as at the end of the reporting period (31 Dec. 2019: 86.58%).

[3] Austria: 14.27%; EU: 14.72% | Source: EBA Risk Dashboard; most recent figures: June 2020

Outlook

In view of the strong operating results in the first nine months of 2020, the HYPO NOE Group expects to record solid performance once again in the fourth quarter. However, the Group anticipates that the reintroduction of lockdown measures will have some impact on the level of personal interaction with customers. That said, the expansion of the Group's multi-channel offering and digitalisation of the product portfolio have served to limit such negative effects in the year to date. There is still considerable uncertainty as regards the duration and macroeconomic consequences of the Covid-19 pandemic, especially in light of the trend in the number of cases. However, the governments of Austria and Germany – both important markets for the Group – have passed comprehensive stabilisation measures that should cushion the blow to the real economy. In any event, when recognising additional risk provisions, the HYPO NOE Group has taken the possible impacts of the Covid-19 crisis into account in its ECL models.

Thanks to the range of segments in which it operates, the HYPO NOE Group is well placed to build on its strong foundations. As at 30 September 2020, low-risk infrastructure, housing development and treasury positions accounted for a substantial 80% of assets. The NPL ratio for these positions was very low, at 0.07%. In addition, the Group has no equity or fund exposures and has continued to reduce the level of fair value positions on the balance sheet over the course of this year, in order to minimise volatility as far as possible. Positions accounted for at cost made up fully 92% of financial assets at the end of the third quarter.

The HYPO NOE Group will continue to base its strategy on organic growth in its core business, digitalisation and further increases in profitability. This will be backed up by its conservative capital and risk profile. The Group's sole owner, the State of Lower Austria, takes a long-term view, and will support the consistent implementation of this strategy.

The complete Results Announcement for the Quarter ended 30 September 2020
is available to download at www.hyponoe.at/en/ir.

HYPO NOE Landesbank für Niederösterreich und Wien AG
HYPO NOE Landesbank is the largest and oldest-established of Austria's state mortgage banks[1], and has served as a dependable commercial bank, stable state bank and specialist mortgage bank for more than 130 years. Based on the foundations of its strong position in the capital region of Lower Austria and Vienna, the Bank operates primarily in Austria and Germany, as well as in selected markets in the European Union.

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[1] By total assets (2019 consolidated financial statements) and date of establishment