HYPO NOE Group reports marked improvement in earnings in 2020 despite challenging conditions

Highlights 2020

- Operating profit significantly higher at EUR 61.6m – up 30.5% on 2019
- Profit before tax at EUR 41.2m (9.2% higher year on year) despite risk provisions totalling EUR 20.4m
- Core earnings consistently strong: Net interest income up by 9.5% and net fee and commission income by 2.0% compared with 2019 despite a fall-off in personal service due to Covid-19
- Reduction of 4.7% in administrative expenses, CIR down to 53.29% as at 31 December 2020
- Conservative risk and capital profile:
  NPL ratio fell to 0.78% as at 31 December 2020 (31 Dec. 2019: 0.96%), CET1 ratio on budget at 17.92%

Increased operational profitability

Even though it faced a difficult operating environment, HYPO NOE Group successfully continued the systematic implementation of its Fokus 25 strategy in 2020. **Profit before tax** climbed by 9.2% to EUR 41.2m (2019: EUR 37.7m). Increased operating income in the customer business and a further decrease in administrative expenses resulted in a significant increase in operating profit, which more than made up for the rise in risk provisions.

In what was a very difficult year, we succeeded in seamlessly continuing the trend of recent years and further improving our profitability. This reflects the resilience of our business model and shows that we are heading in the right direction thanks to our strategic Fokus 25 initiatives.

Wolfgang Viehauser
Management Board Member Markets and Speaker of the Board

Underlying operating performance was healthy yet again. Core earnings – comprising net interest income and net fee and commission income – were 8.6% higher, reaching EUR 146.5m, against the backdrop of zero interest rates and lockdown measures. **Net interest income** put in a strong showing, rising by 9.5% to stand at EUR 129.2m, while the net interest margin improved once more. Although the level of face-to-face customer service dropped due to Covid-19, **net fee and commission income** grew by 2.0% to EUR 17.4m. The ongoing digitalisation of the product range and the expansion of multi-channel sales supported this trend. In the face of increased market volatility, **net measurement gains** remained significantly positive, at EUR 3.9m (2019: EUR 5.0m), which reflected the steady decrease in the proportion of assets measured at fair value over recent years.

Net other operating income decreased to EUR 11.8m (2019: EUR 14.4m). This reflected the restructuring of the real estate services business and was therefore in line with expectations. The decrease was more than offset by higher earnings from the banking and leasing businesses, in line with the Group's strategy. **Operating income**[1] rose accordingly, by 5.8% to EUR 166.4m, compared with EUR 157.3m a year earlier. Thanks to ongoing steps aimed at boosting efficiency, **administrative expenses**[2] fell once again, by 4.7% compared with 2019. As a result, the **cost/income ratio (CIR)** improved to 53.29% (2019: 59.51%).

We have enhanced profitability without deviating from our strong capital and risk guidelines. At the same time, we have introduced comprehensive measures in order to address the changing macroeconomic conditions and to anticipate the potential effects of the Covid-19 pandemic.

Udo Birkner
Management Board Member Finance, Risk & Operations

Continuation of conservative risk policies

The **cost of risk** (ECL) stood at EUR -20.4m in the reporting period (2019: EUR -9.5m). The ECL models take into account the Oesterreichische Nationalbank forecasts, which predict a decline of 7.1% in Austrian GDP in 2020. The Bank responded to the economic situation and the potential effects of the Covid-19 pandemic on the lending portfolio by increasing Stage 1 and 2 risk provisions to a combined EUR 52.8m (31 Dec. 2019: EUR 33.7m). Risk provisions in the performing loan portfolio as a proportion of risk-weighted assets stood at a solid 136 bps at 31 December 2020 (EU average: 89 bps[3]). It should be noted that the Group has no significant exposures to industries that have been particularly badly affected by the current crisis, as the portfolio is mainly geared towards low-risk financing for infrastructure and housing construction.

New lending stable

HYPO NOE Group continued to perform its traditional role in spite of the challenging operating conditions, with **new lending** of EUR 1.7bn (2019: EUR 1.8bn). This was in line with the budget – in terms of both volume and margins – in spite of the pandemic. Housing finance accounted for more than EUR 800m of the total, and the Group again succeeded in consolidating its position on this market. In line with the Fokus 25 strategy, the Public Sector segment focused effectively on expanding its business in the federal states bordering Lower Austria, while the Corporate Customers segment continued to pursue a targeted growth strategy with an emphasis on export and subsidised finance. As a result of this solid performance in new lending, **financial assets – AC** rose by 6.6% compared with year-end 2019, reaching EUR 13.2bn (31 Dec. 2019: EUR 12.4bn).

[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 169.5m (2019: EUR 162.0m)
[2] After exceptional effects (allocation to the resolution and deposit insurance fund, and financial stability contribution instalment payments): EUR 90.3m (2019: EUR 96.4m)
[3] Source: European Banking Authority (EBA); most recent figure: 30 June 2020

Strong customer confidence – unrestricted access to refinancing

Customer deposits (excl. TLTRO III) went up by 6.6% during the reporting period – and in the course of the Covid-19 crisis – to EUR 5.0bn (31 Dec. 2019: EUR 4.7bn). This underlines the HYPO NOE Group's standing as a safe haven in difficult times. Complementary **refinancing on the capital markets** was carried out as planned. May 2020 saw the flotation of a mortgage-backed covered bond, which was followed by the placement of HYPO NOE Landesbank's first-ever senior preferred green bond in June. Both benchmark issues were valued at EUR 500m and were heavily oversubscribed. Towards the end of the first half of 2020, HYPO NOE Landesbank participated in the European Central Bank's TLTRO III programme, securing long-term refinancing at an early stage of the year.

Due mainly to the take-up of the ECB tender, **total assets** temporarily rose to EUR 16.4bn, compared to EUR 14.6bn at the end of 2019. On the equity and liabilities side of the balance sheet, this increase was reflected in the **financial liabilities – AC** item, which finished the reporting period at EUR 14.3bn (31 Dec. 2019: EUR 12.5bn). On the assets side, there was a corresponding increase in **cash and balances at central banks** to EUR 1.5bn (31 Dec. 2019: EUR 0.2bn).

Robust capital and risk profile maintained

HYPO NOE Group again reported a strong **Common Equity Tier 1 (CET1)** ratio of 17.92% at the end of the reporting period (31 Dec. 2019: 19.19%), even though the relief provided for under the CRR, in the shape of the SME supporting factor, was not applied. Consequently, the HYPO NOE Group's capitalisation was more than five percentage points above the minimum regulatory requirement including the SREP at year-end 2020.

Already low, the **non-performing loan (NPL)** ratio fell to an all-time record of just 0.78% at the end of 2020 (31 Dec. 2019: 0.96%). The volume of Stage 3 loans dropped from EUR 110m at the end of 2019 to EUR 95m, which mainly reflects strict intensive care management. The **NPL coverage ratio** remained high, at 75.18% as at the end of the reporting period (31 Dec. 2019: 86.58%).

Outlook

Notwithstanding the problematic operating environment brought about by the pandemic, HYPO NOE Group reported continued strong performance in its underlying operations in 2020. Based on these foundations, the Group expects to post solid results again in 2021. Especially in times of crisis, HYPO NOE Group's business model has constantly proved resilient thanks to its focus on low-risk infrastructure and housing finance. The Group will therefore continue to systematically pursue its strategy of concentrating on its core business in its core markets, while maintaining a conservative risk and capital profile.

Uncertainties remain concerning the duration and macroeconomic impact of the pandemic. 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 case, HYPO NOE Group took the possible effects of the Covid-19 crisis into account in its ECL models and recognised additional risk provisions during the reporting period.

The concerted drive to implement digitalisation measures in banking operations and sales, and an end to the obligation to pay the financial stability contribution instalment mean that administrative expenses are expected to decrease further in 2021.

The full 2020 Annual Report is available for download at ir.hyponoe.at/en.

HYPO NOE Landesbank für Niederösterreich und Wien AG
HYPO NOE Landesbank is the largest and oldest-established of Austria's state mortgage banks[4], 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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[4] By total assets (2019 consolidated financial statements) and date of establishment