Investor newsletter
24 August 2021

HYPO NOE Group with further improvement in earnings in the first half of 2021

Highlights H1 2021

- Profit before tax up to EUR 34.0m (H1 2020: EUR 14.3m)
- Another strong showing by core earnings: net interest income up by 10%, net fee and commission income by 8.1% year on year
- 4.5% year-on-year fall in administrative expenses; first-half CIR 53.13%
- NPL ratio at a new all-time low of 0.68% as at the end of the reporting period (31 Dec. 2020: 0.78%); risk provisions (ECL) in the performing loan portfolio at a solid 126 bps as a proportion of RWA
- CET1 ratio at a lofty 17.62% (pro forma figure incl. interim result: 18.30%) as at 30 June 2021

Operating business remains strong

HYPO NOE Group reported a profit before tax of EUR 34.0m for the first half of 2021 (H1 2020: EUR 14.3m) and a return on equity (ROE) before tax of 9.51% (H1 2020: 4.21%). Roll-out of the Fokus 25 strategy is on course despite the challenging business environment. Increased income from the customer business and another decline in costs were the platform for a sharp rise in earnings. Operating profit (before risk costs) accordingly climbed to EUR 30.2m, compared to EUR 19.4m in the first half of 2020. The cost/income ratio (CIR)[1] decreased to 53.13% (H1 2020: 57.87%). The extensive ECL modelling of potential Covid-19 effects remains in use.

By consistently implementing our "Fokus 25" strategy, we were able to further improve in all material aspects, as the recent result shows. Especially encouraging is the fact that this renewed progress is operationally driven. We will therefore decisively pursue this path.

Wolfgang Viehauser
Management Board Member Markets and Speaker of the Board

Core earnings jumped by 9.8% to EUR 79.7m – up from EUR 72.6m in the first half of the previous year. The main contributor to this improvement was net interest income, which grew by 10% year on year to EUR 69.9m. Despite lower customer footfall due to Covid-19, net fee and commission income rose by 8.1% to EUR 9.8m (H1 2020: EUR 9.0m). The recent accelerated expansion of multi-channel and online marketing helped power this trend.

[1] Operating expenses/operating income

Ongoing efficiency measures were systematically driven ahead, further trimming administrative expenses by 4.5% to EUR 57.0m (H1 2020: EUR 59.7m). The end of the obligation to pay the financial stability contribution instalment also had a positive impact, as did the completion of restructuring of the former real estate services business. However, these factors were partly offset by higher contributions to the deposit insurance and resolution fund.

Continuation of prudent provisioning policy

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

In a challenging environment due to Covid-19, we have further strengthened our balance sheet and continue to execute our strategic initiatives. Based on robust capitalisation and excellent asset quality, we are growing in a risk-sensitive manner while remaining prudent in our provisioning.

Udo Birkner
Management Board Member Finance, Risk & Operations

Profitable growth

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

Refinancing for 2021 already almost covered

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

Conservative capital and risk guidelines

HYPO NOE Group reported a Common Equity Tier 1 (CET1) ratio of 17.62% as at 30 June 2021 (31 December 2020: 17.92%), well above the Austrian and European average[2]. As of this reporting date, the CRR relief in the form of the SME supporting factor was implemented for the first time. Adjusted for first-half earnings and an accrual for regulatory costs, which had to be recognised in full at the start of 2021, the pro forma figure for the CET1 ratio was 18.30% at 30 June 2021.

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

Outlook

Covid-19 related restrictions are still in place, but the vaccination roll-out should mean that business activity is increasingly normalised during the second half of 2021 – particularly in the Austrian and German markets, which are vital to the Group. Defaults are expected to rise as government support measures expire. In 2020 the HYPO NOE Group began taking the possible effects of the Covid-19 crisis into account in its expected credit loss (ECL) models and recognised additional risk provisions.

In what remained a testing environment, the HYPO NOE Group marked up a year-on-year improvement in profits for the first half of 2021. This is expected to lay the groundwork for a solid performance over the rest of the year. In line with its core competences, low-risk infrastructure and housing construction lending will remain the mainspring of the Group's business model. These areas of activity have consistently shown themselves to be particularly resilient across the business cycle.

The strategic alignment of HYPO NOE Group continues to be based on organic growth in the core business, digitalisation and further improvements in profitability, whilst maintaining a conservative capital and risk profile. The Bank's sole owner, the State of Lower Austria, takes a long view and ensures a sustainable implementation of this strategy.

[2] Austria: 14.72%; EU: 15.55% | Source: European Banking Authority (EBA); most recent figure: March 2021

The complete Semi-Annual Financial Report 2021 is available to 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[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 (2020 consolidated financial statements) and date of establishment