

Research Update:

HYPONOE Affirmed At 'A/A-1', Despite Negative Outlook On Lower Austria; Outlook Stable

May 7, 2020

Overview

- On May 6, 2020, we revised our outlook on Lower Austria to negative from stable and affirmed the 'AA/A-1+' ratings.
- We expect HYPONOE Landesbank für Niederösterreich und Wien AG (HYPONOE) will continue to benefit from its comparably lower risk lending profile and a high likelihood of extraordinary support from Lower Austria, its 100% owner.
- We are affirming our 'A/A-1' ratings on HYPONOE.
- The stable outlook reflects our view of the high likelihood of extraordinary support from Lower Austria and a manageable impact from the COVID-19 pandemic on the bank's operations, performance, and asset quality.

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Rating Action

On May 7, 2020, S&P Global Ratings affirmed its 'A/A-1' long- and short-term issuer credit ratings on HYPONOE Landesbank für Niederösterreich und Wien AG (HYPONOE). The outlook is stable.

We also affirmed our 'BBB-' issue ratings on subordinated debt that can be issued under HYPONOE's current notes program.

Rationale

We do not consider that our recent outlook revision on the State of Lower Austria to negative ("State of Lower Austria Outlook Revised To Negative; 'AA/A-1+' Ratings Affirmed," published May 6, 2020) has an immediate negative impact on our view of HYPONOE's creditworthiness.

We view HYPONOE as a government-related entity (GRE). Our 'AA' rating on Lower Austria is still materially higher than our 'bbb+' assessment of HYPONOE's stand-alone credit profile (SACP) and we expect that the bank will continue to benefit from a high likelihood of receiving timely and sufficient support from its owner in times of stress. This is reflected in the two-notch uplift we incorporated in our 'A' long-term issuer credit rating on HYPONOE.

We also believe Hypo NOE's low-risk lending profile and very strong capitalization will provide buffers to absorb negative effects from economic pressures related to COVID-19 (see "Outlook Revisions On Several Austrian Banks On Deepening COVID-19 Downside Risks," published April 29, 2020, on Ratings Direct). However, we do expect risk costs and nonperforming loans (NPLs) will rise significantly over 2020 and early 2021. Given that Hypo NOE's preprovision income is constrained by its narrow earnings margin on total assets, this may result in the bank being barely profitable in full-year 2020. Still, we believe the bank's NPL ratio will remain somewhat below the Austrian market average.

We will continue to monitor any potential impact that the COVID-19 pandemic or the owner's creditworthiness might have on Hypo NOE. In particular, any effects on Hypo NOE's profitability, asset quality, or capitalization that are more material than we currently anticipate could lead us to reconsider our rating.

Outlook

The stable outlook reflects our view that Hypo NOE will be able to contain loan losses and preserve low, but positive, bottom-line profitability over the cycle. We also expect the bank will continue to maintain adequate liquidity buffers and benefit from access to wholesale markets to address upcoming refinancing needs, although possibly at somewhat higher costs.

Downside scenario

We could lower our rating on Hypo NOE within the next 12-24 months if the bank's SACP materially weakens, in particular if the economic risk in Austria increases and the bank's tight profitability deteriorates. Moreover, if our risk-adjusted capital (RAC) ratio drops below 15%, for example due to higher credit losses than we currently expect, we could lower the rating.

Since Hypo NOE is a GRE, the ratings are also sensitive to the creditworthiness of Lower Austria. Therefore, if we downgrade Lower Austria, we will review our ratings on Hypo NOE. In addition, we could lower our rating if the likelihood of extraordinary support from Lower Austria diminishes. We currently see this scenario as remote, however.

Upside scenario

Although unlikely over the next 12-24 months, we could raise our rating on Hypo NOE if the risks to Austria's economy related to COVID-19 ease, if we see the bank maintaining asset quality significantly above the market average, and if the rating on Lower Austria does not indicate a downside change. At the same time, we would expect Hypo NOE's RAC ratio to remain sustainably above 15%.

Ratings Score Snapshot

Issuer Credit Rating:	A/Stable/A-1
SACP	bbb+
Anchor	a-
Business position:	Weak (-2)
Capital and earnings	Very Strong (+2)

Risk position	Moderate (-1)
Funding and	Average and
Liquidity	Adequate(0)
Support:	+2
ALAC support:	0
GRE support:	+2
Group support:	0
Sovereign support:	0
Additional factors:	0

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- State of Lower Austria Outlook Revised To Negative; 'AA/A-1+' Ratings Affirmed, May 6, 2020
- Outlook Revisions On Several Austrian Banks On Deepening COVID-19 Downside Risks, April 29, 2020
- HYPO NOE Landesbank fur Niederosterreich und Wien AG, Oct. 8, 2019

Ratings List

Ratings Affirmed

**HYPO NOE Landesbank fur
Niederosterreich und Wien AG**

Issuer Credit Rating A/Stable/A-1

**HYPO NOE Landesbank fur
Niederosterreich und Wien AG**

Senior Unsecured A

Subordinated BBB-

Short-Term Debt A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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