

Research Update:

# Hypo NOE Affirmed At 'A/A-1' Following Outlook Revision On Lower Austria; Outlook Stable

February 14, 2022

## Overview

- On Feb. 11, 2022 we revised our outlook on Lower Austria to stable from negative and affirmed the 'AA/A-1+' ratings.
- We expect HYPO NOE Landesbank fur Niederosterreich und Wien AG (Hypo NOE) 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 therefore affirming our 'A/A-1' ratings on Hypo NOE.
- 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.

## Rating Action

On Feb. 14, 2022, S&P Global Ratings affirmed its 'A/A-1' long-term and short-term issuer credit ratings on HYPO NOE Landesbank fur Niederosterreich und Wien AG (Hypo NOE). The outlook is stable.

We also affirmed our 'BBB-' issue rating on the subordinated debt that can be issued under Hypo NOE's current notes program.

## Rationale

**The affirmation follows our rating action on Lower Austria.** We revised our outlook on Lower Austria because we now expect that Lower Austria's operating revenue growth will support its consolidation efforts and offset its remaining small deficits after capital accounts. This should keep the ratio of adjusted direct debt to operating revenue broadly stable. Furthermore, we expect the state to maintain an exceptional liquidity position. For details on Lower Austria, see "State of Lower Austria Rating's Outlook Revised to Stable, 'AA/A-1+' Ratings Affirmed," published Feb. 11, 2022, on RatingsDirect.

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**We consider it less likely that the government's ability to support Hypo NOE will diminish over the next 12-24 months.** We continue to regard Hypo NOE as a government-related entity (GRE) with a high likelihood of receiving timely and sufficient support from Lower Austria, its owner, in times of stress. We therefore apply two notches of uplift from the 'bbb+' stand-alone credit profile (SACP), leading to an 'A' long-term issuer credit rating. As a result, our rating on the bank also depends on our view of the state's creditworthiness.

**We expect Lower Austria will remain supportive of Hypo NOE and remain the long-term owner of the bank.** Our view of a high likelihood of extraordinary government support for Hypo NOE is based on our assessment of the bank's:

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

**The rating also reflects Hypo NOE's concentrated but well capitalized and stable business model.** The bank is focused on public sector-related lending and real estate, and we expect it will maintain a comparably lower risk lending profile. We believe this business approach will continue to support a stable core operating performance against the difficult, but easing, economic risks caused by the pandemic and the associated containment measures. The rating is supported by very strong capital buffers, and we project Hypo NOE's risk-adjusted capital (RAC) ratio will be 16.0%-16.5% over the next 12-24 months, backed by moderate but stable earnings capacity. The recent purchase of subsidized housing loans from Lower Austria does not have a significant impact on our capital projections because these loans are fully guaranteed by Lower Austria and carry less credit risk in our view.

## Outlook

The stable outlook reflects our view that Hypo NOE will maintain very strong capital and moderate bottom-line profitability with contained loan losses. We also expect Hypo NOE'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 is a remote possibility at this stage and would require a two-notch downward revision in our view of Hypo NOE's SACP. This would be the case if:

- We saw a negative trend in the industry risk for Austrian banks materializing, leading to higher industry risk and, as a result, a lower anchor for Austrian banks; and
- We expected the RAC ratio to fall below 15%, following higher-than-expected credit losses or a shift toward higher-risk underwriting, for example.

Although less likely, a change in Hypo NOE's role for or link with the state could lead us to reassess the bank's status as a GRE and result in a downgrade.

## Upside scenario

We are unlikely to raise the rating in the next 12-24 months. That said, 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 such a scenario, we would only raise the rating if we considered Hypo NOE's creditworthiness to be in line with that of higher-rated peers. Any positive rating action would also depend on a stabilization of our view of the industry risk trend in our Banking Industry Risk Assessment on Austria's banking sector.

## Ratings Score Snapshot

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

SACP--Stand-alone credit profile.

**ESG credit indicators: E-2, S-2, G-2**

## Related Criteria

- 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: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019

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

## Related Research

- State of Lower Austria Rating's Outlook Revised to Stable, 'AA/A-1+' Ratings Affirmed, Feb. 11, 2022
- Austrian Bank Ratings Affirmed Under Revised FI Criteria, Feb. 7, 2022
- HYPO NOE Landesbank fur Niederosterreich und Wien AG, Dec. 08, 2021

## Ratings List

### Ratings Affirmed

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

Issuer Credit Rating	A/Stable/A-1
Senior Unsecured	A
Subordinated	BBB-
Short-Term Debt	A-1

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