

Operating profit up 17.3% to EUR 19.4m in the first half of 2020 despite Covid-19 crisis

Highlights H1 2020

- Another strong set of core earnings figures: Net interest income up by 10.9% on H1 2019; Net fee and commission income virtually unchanged despite reduced personal service due to Covid-19
- Further efficiency gains: Administrative expenses down by 3.2% year on year
- Sound risk position: NPL ratio down to 0.89% as at 30 June 2020 (31 Dec. 2019: 0.96%), risk costs at normal levels despite provisioning for Covid-19 impacts
- Refinancing for 2020 largely completed: two successful benchmark bond issues
- CET1 ratio at a healthy 17.64% (pro forma figure incl. interim result: 18.07%) as at 30 June 2020

Positive core business performance

The HYPO NOE Group kept up its strong operating performance in an environment shaped by the unprecedented health and economic crisis caused by Covid-19. The most important income component, net interest income, again rose significantly, climbing by 10.9% to stand at EUR 63.6m. Despite the fall-off in personal service, net fee and commission income held up well at EUR 9.0m, compared to EUR 9.2m in the first half of 2019. The ongoing digitalisation of the product range and the expansion of multi-channel sales over the past few years supported this trend.

Robust core earnings more than offset temporary measurement effects, raising operating income¹ by 1.2% to EUR 79.0m. Meanwhile, ongoing action to enhance efficiency was stepped up, resulting in a 3.2% reduction in administrative expenses² to EUR 59.7m. This led to a 17.3% surge in operating profit (before risk costs) to EUR 19.4m. The cost/income ratio (CIR) improved to 57.87% (H1 2019: 61.42%).

In response to the coronavirus outbreak, we quickly implemented measures designed to ensure safe and uninterrupted business operations, and as a reliable partner we provided our customers with continuous support across all of our service channels. Strong performance in the retail business and successful refinancing activities in the first half show that HYPO NOE continues to be seen as a stable institution in times of crisis.

Wolfgang Viehauser

Management Board Member Markets and Speaker of the Board

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 79.6m (H1 2019: EUR 77.9m).

² After exceptional effects (allocation to the resolution and deposit insurance fund, and financial stability contribution instalment payments): EUR 46.1m (H1 2019: EUR 47.9m).

Profit before tax was a solid EUR 14.3m (H1 2019: EUR 19.9m). The high pre-tax profit for the previous year was due to a particularly favourable risk situation driven by EUR 3.4m in reversals. During the first half of 2020, the risk costs (ECL) ran at a normal level of EUR 5.1m, despite the fact that the ECL models proactively accommodate future potential Covid-19 impacts. This should anticipate both macroeconomic changes and potential implications for the loan portfolio.

Balance sheet reflects strong customer business

New lending put in another strong showing at EUR 900m (H1 2019: EUR 800m), and was on target in terms of both volumes and margins despite the Covid-19 pandemic. Financial assets - AC advanced correspondingly, by 5.9% in comparison to year-end 2019, to EUR 13.1bn.

Especially in these uncertain times, the Group's stability - resulting from the combination of a low-risk business model and a reliable ownership structure - comes into its own. The first-half results underline the Group's ability to successfully implement its strategy even under difficult conditions. We recorded a further improvement in operating profitability while remaining true to our conservative risk management and capital adequacy guidelines.

Udo Birkner

Management Board Member Finance, Risk & Operations

Longer-term refinancing secured

The Group succeeded in carrying out its refinancing activities as planned, despite facing a challenging environment characterised by increased market volatility. In May, the Bank launched the first European benchmark covered bond issue outside France since the start of the Covid-19 crisis, and June saw the debut benchmark issue of a senior preferred green bond. Both transactions were heavily oversubscribed. This meant that HYPO NOE Landesbank had unlimited access to the capital markets even during the crisis.

Nevertheless, there is still a high degree of uncertainty as to the duration of the pandemic and hence the extent of the economic fall-out. Because of this, HYPO NOE Landesbank took part in the European Central Bank (ECB) TLTRO III programme in June. Thanks to this additional option for one-to-three-year refinancing on attractive terms, the Bank will once again remain true to its long-term approach. It is well placed to continue to meet its responsibilities as a state bank to the full, even if the crisis takes a more adverse turn. Due to the take-up of TLTRO III finance, total assets temporarily rose to EUR 17.3bn, and financial liabilities - AC to EUR 15.1bn (EUR 13.5bn excluding TLTRO III), compared to EUR 12.5bn at year-end 2019.

Conservative capital and risk profile

The Common Equity Tier 1 (CET1) ratio stood at 17.64% at 30 June 2020, compared with 19.19% at the end of 2019. Taking account of the interim result and linear prorating of regulatory costs, the ratio was 18.07%, despite the growth in new lending and the risk provisions recognised in response to the Covid-19 crisis.

As a result, the Group's capitalisation was a healthy five percentage points above the minimum regulatory requirement including the SREP. The non-performing loan (NPL) ratio remained at a historically low level, standing at 0.89% at the end of the first half (31 Dec. 2019: 0.96%), reflecting the consistently high quality of the HYPO NOE Group's lending portfolio.

Outlook

Based on its good results in the first half of 2020, the HYPO NOE Group expects solid performance for the remainder of the year, although uncertainty remains concerning the duration and macroeconomic impact of the Covid-19 pandemic. The governments of Austria and Germany - markets that are important for the Group - have signed off on comprehensive stabilisation measures that should limit the impact on the real economy. Thanks to its portfolio of activities, which is focused on low-risk infrastructure and housing finance, the HYPO NOE Group is well-placed to weather the effects of the crisis triggered by the pandemic. These effects have been taken into consideration when modelling expected credit losses for the Group's risk provisions.

Overall, the HYPO NOE Group is ideally placed to build on its strong foundations. As at 30 June 2020, low-risk infrastructure, housing development and treasury positions accounted for fully 81% 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 continued to reduce the level of fair value positions on the balance sheet during the first half of 2020, in order to minimise volatility as far as possible. Positions accounted for at cost made up a substantial 92% of financial assets at the end of the first half.

The complete Semi-Annual Financial Report 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 banks¹, 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