MOODY'S

Rating_Action: Moody's upgrades Volksbank Wien AG's deposit ratings to A2; outlook changed to stable

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Rating agency upgrades the bank's Baseline Credit Assessment to baa1

Frankfurt am Main, February 27, 2023 -- Moody's Investors Service (Moody's) has today upgraded Volksbank Wien AG's (VBW) long- and short-term domestic and foreign currency deposit ratings to A2/P-1 from Baa1/P-2, the junior senior unsecured domestic currency rating to Baa1 from Baa2, the subordinate domestic currency rating to Baa2 from Baa3, and its preferred stock non-cumulative domestic currency rating to Ba1(hyb) from Ba2(hyb). The outlook on the long-term deposit ratings was changed to stable from positive.

Concurrently, the rating agency upgraded the bank's Baseline Credit Assessment (BCA) and Adjusted BCA to baa1 from baa2, long-term domestic currency Counterparty Risk Ratings (CRR) to A1 from A2 and long-term Counterparty Risk Assessment (CR Assessment) to A1(cr) from A2(cr). At the same time, the rating agency affirmed the short-term domestic currency CRR at P-1 and, the short-term CR Assessment at P-1(cr).

RATINGS RATIONALE

-- UPGRADE OF VBW'S BCA

The upgrade of VBW's BCA to baa1 from baa2 reflects the bank's sustainably strengthened solvency profile, including a resilient asset quality performance during the pandemic, while its strong capital levels provide a substantial cushion against potential losses from adverse market developments. The BCA upgrade also acknowledges the bank's early and full repayment of participation rights, held by the Government of Austria (Austria, Aa1 stable) in December 2022, which has resolved previous constraints on further build-up of its capitalization.

Moreover, VBW's profitability has benefitted from an improving cost structure derived from the group's efficiency program launched in 2018 after its significant restructuring. While the group's cost-to-income ratio still lags its domestic peers, the efficiency gains have improved the group's resilience to economic challenges. Because VBW is largely deposit funded, the rating agency expects further rising profitability from a more benign interest rate environment and repricing of the bank's loan book.

The BCA is supported by the bank's stable funding and solid liquidity profile, which benefits from the bank's large and granular deposit franchise in Austria. Moody's expects, however, the reliance on market confidence-sensitive funding to slightly increase as VBW needs to issue debt instruments to reach the regulatory minimum requirement for own funds and eligible liabilities (MREL).

Moody's assesses VBW's credit profile based on the consolidated financials of the

Oesterreichischer Volksbanken-Verbund (Verbund).

-- UPGRADE OF DEPOSIT RATINGS

The upgrade of VBW's deposit ratings reflects the upgrade of its BCA and Adjusted BCA to baa1 from baa2, as well as the improved assessment of loss severity for deposits under Moody's Advanced Loss Given Failure (LGF) analysis, indicating now a very low loss given failure, leading to a two-notch uplift from its baa1 Adjusted BCA, and unchanged low likelihood of support from Austria, which continues to result in no rating uplift for the deposit ratings from government support.

The improved result from Moody's Advanced LGF is based on the rating agency's forward view and takes into account that VBW needs to reach a regulatory MREL of 26.47% [1] of risk-weighted assets including the combined buffer requirement of 3.5% at the Verbund level by year-end 2024, which requires additional debt issuance by VBW, thereby increasing risk protection for deposits.

-- UPGRADE OF DEBT RATINGS, CRR AND CR ASSESSMENT

The upgrade of VBW's junior senior unsecured, subordinate and preferred stock ratings reflects the upgrade of its BCA and Adjusted BCA to baa1 from baa2, unchanged results from Moody's Advanced LGF analysis as well as unchanged results from the rating agency's assumption for government support. Because the rating agency expects VBW to mostly issue senior unsecured instruments to meet its MREL obligations, these additional volumes have no effect on the loss severity of more junior ranking instruments.

The upgrade of VBW's long-term CRR and CR Assessment reflects the upgrade of the (Adjusted) BCA to baa1 from baa2 and continues to incorporate unchanged extremely low loss severity because of strong protection from more junior instruments outstanding. Because the CRR and CR Assessment already benefitted from the maximum amount of rating uplift possible from Moody's Advanced LGF analysis, the expected issuance of additional MREL instruments had no effect on the ratings.

-- OUTLOOK CHANGED TO STABLE FROM POSITIVE

The stable outlook on VBW's long-term deposit ratings reflects Moody's expectation that VBW will be able to protect its achieved solvency. Furthermore, the stable outlook reflects the assumption that the outstanding volumes of junior senior unsecured and subordinated debt instruments do not significantly drop below indicated levels in relation to the bank's balance sheet and that further MREL eligible instruments will be issued over the next 12 to 18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

VBW's ratings may be upgraded in case of an upgrade of its baa1 BCA because of a sustainably improved standalone intrinsic strength by either significantly increasing its capitalization or profitability beyond the rating agency's current assumption without incurring renewed asset risks and while keeping its defensive liquidity profile.

The bank's deposit, junior senior unsecured debt and subordinated debt ratings could be upgraded in case of significant additional volumes of capital instruments (Tier 2 and Additional Tier 1) being issued.

VBW's ratings could be downgraded if the bank's BCA is downgraded or if the bank's liability structure leads to a less favourable outcome under Moody's Advanced LGF analysis, which could for example result from a significant reduction in the volume of debt instruments subordinated to senior unsecured liabilities.

A downgrade of VBW's BCA could result from a weakening of the bank's combined solvency profile, in particular if this were to be caused by a meaningful reduction in capitalization and profitability together with an increased reliance in market funding reliance beyond Moody's expectation.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/api/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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REFERENCES/CITATIONS

[1] Volksbank Wien AG's debt issuance base prospectus dated 20 May 2022.

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