MOODY'S RATINGS

Rating Action: Moody's Ratings affirms Hypo Vorarlberg Bank AG's A3 long-term deposit and senior unsecured ratings; outlook remains stable

20 Aug 2024

Frankfurt am Main, August 20, 2024 -- Moody's Ratings (Moody's) has today affirmed all ratings of Hypo Vorarlberg Bank AG (Hypo Vorarlberg), including the bank's A2/P-1 long- and short-term Counterparty Risk Ratings (CRR), its A3/P-2 long- and short-term deposit ratings, its A3 long-term senior unsecured debt and (P)A3 long-term senior unsecured MTN program ratings, as well as its A3/P-2 long- and short-term issuer ratings and its Baa3 subordinate debt and (P)Baa3 subordinate MTN program ratings. The outlook on the long-term deposit, issuer and senior unsecured debt ratings remains stable.

Concurrently, we affirmed Hypo Vorarlberg's baa2 Baseline Credit Assessment (BCA) and Adjusted BCA and its A2(cr)/P-1(cr) long- and short-term Counterparty Risk Assessment (CR Assessment).

RATINGS RATIONALE

-- AFFIRMATION OF HYPO VORARLBERG's BASELINE CREDIT ASSESSMENT

The affirmation of Hypo Vorarlberg's baa2 BCA reflects its overall resilient and stable financial profile, despite weakening credit quality and inherent risks from the bank's lending concentrations to corporate and commercial real estate customers which exerts asset quality challenges and earnings pressure from elevated credit costs. We consider the bank's sound capitalisation to be an important mitigant to these risks. The affirmation also takes into account Hypo Vorarlberg's large dependence on confidence-sensitive wholesale funding, mitigated by improved liquid resources.

-- AFFIRMATION OF HYPO VORARLBERG's RATINGS

The affirmation of Hypo Vorarlberg's ratings reflects the affirmation of the bank's baa2 BCA and Adjusted BCA and unchanged results from our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss in resolution for Hypo Vorarlberg's different liability classes and results in two notches of rating uplift for deposits and senior unsecured debt. For subordinated debt, the high loss given failure results in a rating which is one notch below the bank's Adjusted BCA. Finally, the affirmation incorporates an unchanged assumption of a low likelihood of government support because of Hypo Vorarlberg's small size in the context of the Austrian banking sector.

-- STABLE OUTLOOK ON LONG-TERM RATINGS

The stable outlook on Hypo Vorarlberg's long-term deposit, issuer and senior unsecured debt ratings reflects our expectation of the bank maintaining its current solvency and liquidity profile. The stable outlook also takes into account our expectation that Hypo Vorarlberg will maintain sufficient volumes of bail-in-able liabilities safeguarding the currently assigned rating uplift resulting from our Advanced LGF analysis.

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

An upgrade of Hypo Vorarlberg's ratings could be triggered by an upgrade of the bank's baa2 BCA and Adjusted BCA, or from additional rating uplift as a result of our Advanced LGF analysis, caused by issuing significant volumes of instruments ranking below senior unsecured debt, in particular capital instruments.

Hypo Vorarlberg's baa2 BCA could be upgraded following a significant and sustainably strengthened solvency and liquidity, in particular due to a meaningful improvement in asset quality and a significant reduction in higher-risk asset concentrations, in combination with sustainably improved profitability and capitalisation, as well as a sizeable reduction in market funding.

A downgrade of Hypo Vorarlberg's ratings could be triggered following a downgrade of the bank's BCA and Adjusted BCA. The bank's deposit, issuer and senior unsecured ratings could also be downgraded in case of a material reduction of bail-in-able debt volume in issuance, such that it results in fewer notches of rating uplift from our Advanced LGF analysis.

A downgrade of Hypo Vorarlberg's BCA could result from a further weakening of the bank's credit quality, a reduction in its capitalisation, a meaningful and sustained decline in profitability, an increase in its already high market funding dependence, or a reduction in the bank's currently solid liquid resources.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852 . 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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