MOODY'S RATINGS

Rating Action: Moody's Ratings affirms Volksbank Wien's A2 long-term deposit and senior unsecured debt ratings, outlook changes to negative

20 Mar 2025

Baseline Credit Assessment also affirmed at baa1

Frankfurt am Main, March 20, 2025 -- Moody's Ratings (Moody's) has today affirmed Volksbank Wien AG's (VBW) A2/P-1 long- and short-term deposit ratings, as well as the bank's A2 long-term senior unsecured debt rating. The outlook for the bank's long-term deposit and senior unsecured debt ratings has been changed to negative from stable.

Concurrently, we affirmed VBW's baa1 Baseline Credit Assessment (BCA) and baa1 Adjusted BCA, as well as the bank's Baa1 junior senior unsecured debt rating and its Baa2 subordinated debt rating. The bank's A1/P-1 long- and short-term Counterparty Risk Ratings and its A1(cr)/P-1(cr) long- and short-term Counterparty Risk Assessments have also been affirmed.

RATINGS RATIONALE

-- AFFIRMATION OF THE BASELINE CREDIT ASSESSMENT

The affirmation of VBW's baa1 BCA takes account of the significant deterioration in the bank's asset quality, with the non-performing loan ratio rising to 5.0% at the end of 2024 from 2.8% the previous year. This substantial increase has been primarily driven by the bank's concentrated exposures to commercial real estate (CRE) borrowers, particularly residential development projects, which are under pressure from higher refinancing and construction costs as well as reduced retail demand. Consequently, we anticipate that VBW's problem loans will remain elevated over the next 12-18 months.

In affirming VBW's baa1 BCA, we have considered strong mitigating factors that enabled the bank to offset the increased cost of risk resulting from the aforementioned challenges. These mitigating factors include VBW's robust pre-provision profitability, allowing the bank to remain profitable and sustain its solid capitalisation, maintaining a substantial buffer above regulatory minimums. Additionally, the bank's strong and stable deposit base in Austria remains a key credit strength supporting its BCA, reducing reliance on more expensive and confidence-sensitive market funding and ensuring solid balance-sheet liquidity.

Considering the above challenges, we have revised VBW's governance risk assessment to moderate from low and the governance issuer profile score (IPS) to G-3 from G-2, per our General Principles for Assessing Environmental, Social and Governance (ESG) Risks methodology. The bank's appetite to accumulate CRE concentration risks, particularly with more vulnerable developers, will continue to test and challenge its risk management and problem loan workout capabilities. This development represents a setback to VBW's prior improvements in asset quality and profitability. As a result, the bank's ESG credit impact score has been lowered to CIS-3 from CIS-2, indicating that ESG factors have a limited impact on the current ratings with potential for greater negative impact over time.

-- AFFIRMATION OF LONG-TERM RATINGS

The affirmation of VBW's deposit, senior unsecured debt, junior senior unsecured and subordinated debt ratings reflects the affirmation of the bank's baa1 BCA and Adjusted BCA and unchanged results from our Advanced Loss Given Failure (LGF) analysis for these debt classes. Further, the ratings reflect our unchanged assumption of a low likelihood of support from the Government of Austria (issuer rating Aa1, stable), which continues to result in no further uplift to the bank's long-term ratings.

-- OUTLOOK CHANGE TO NEGATIVE ON LONG-TERM DEPOSIT AND SENIOR UNSECURED DEBT RATINGS

The change in outlook to negative from stable on the bank's long-term deposit and senior unsecured debt ratings reflects our expectation of an extended period of above-average problem loans and related higher cost of risk that have the potential to strain VBW's financial profile over time. In particular, any further deterioration of its asset quality indicators or failure to workout problem loans during our outlook period could weaken the bank's capitalisation and profitability and, thereby, its overall solvency.

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

Although currently unlikely, VBW's long-term deposit ratings could be upgraded if the bank's BCA is upgraded or following a significant increase in the volume of bail-in-able liabilities beyond our current expectations.

The BCA could be upgraded if the bank successfully manages to resolve its problem loans and sustainably achieves a problem loan ratio below the 2023 level, thereby reestablishing a consistent track record of highly stable asset quality through the cycle, while concurrently reducing undue credit concentrations. Additionally, an upgrade of the BCA could occur if the bank enhances its capitalisation through a significant improvement in underlying profitability, while maintaining its defensive funding strategy and strong liquidity profile.

VBW's ratings could be downgraded as a result of a downgrade of its BCA, or fewer notches of rating uplift from our Advanced LGF analysis.

The BCA could be downgraded if VBW fails to reduce its problem loans or faces a further more pronounced deterioration in asset quality, which could erode its earnings-generation capacity or compromise its solid capital base. Additionally, the BCA could be downgraded if the bank exhibits increased reliance on market funding, for example because of deposit outflows, accompanied by a significant decline in balance-sheet liquidity beyond our current expectations.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at https://ratings.moodys.com/rmc-documents/432741 . 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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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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