

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings upgrades senior unsecured debt rating of Volksbank Wien AG to A2, changes outlook to stable**

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11 Apr 2024

#### **Long-term deposit ratings affirmed at A2, outlook remains stable**

Frankfurt am Main, April 11, 2024 -- Moody's Ratings has today upgraded the senior unsecured debt rating of Volksbank Wien AG (VBW) to A2 from A3 and changed the outlook to stable from positive. At the same time, the rating agency has affirmed the bank's A2/P-1 long- and short-term deposit ratings. The outlook for the bank's long-term deposit ratings remains stable.

Concurrently, Moody's Ratings 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 reflects the bank's significantly stronger profitability that will further strengthen VBW's core capitalization over time, balancing concentration risks in the bank's loan book, in particular to the local commercial real estate (CRE) industry. Moody's Ratings expects the strain on CRE borrowers to persist, likely leading to higher problem loans. However, Moody's Ratings anticipates that the high share of low-risk social housing, reasonable diversification across subsegments and prudent underwriting standards will help mitigate CRE concentration risks, thereby safeguarding the bank's generally solid asset risk profile.

The BCA is further supported by the bank's strong and stable deposit franchise in Austria, reducing its reliance on more costly and more confidence-sensitive market funding and ensuring a robust balance-sheet liquidity.

## -- UPGRADE OF SENIOR UNSECURED DEBT RATING AND AFFIRMATION OF DEPOSIT, JUNIOR SENIOR UNSECURED AND SUBORDINATED DEBT RATINGS

The upgrade of VBW's senior unsecured debt rating to A2 from A3 reflects the affirmation of its baa1 BCA as well as the outcome of Moody's Ratings' Advanced Loss Given Failure (LGF) analysis now leading to two notches of uplift for VBW's senior unsecured debt ratings, from one notch previously.

The additional notch of rating uplift on VBW's senior unsecured debt ratings results from the additional volume of loss absorbing debt generated through VBW's successful subordinated Tier 2 benchmark issuance of €500 million in March 2024, more than offsetting the €220 million of Additional Tier 1 that was called and repaid. This has effectively reduced the loss severity for VBW's senior unsecured creditors, which the rating agency expects to be sustained in the medium term.

The affirmation of VBW's deposit, junior senior unsecured and subordinated debt ratings reflects the affirmation of the bank's baa1 BCA and Adjusted BCA and unchanged results from Moody's Ratings' Advanced LGF analysis for these debt classes.

Further, the ratings reflect Moody's Ratings' 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.

## -- STABLE OUTLOOK ON LONG-TERM DEPOSIT AND SENIOR UNSECURED DEBT RATINGS

The outlook on the bank's long-term deposit and senior unsecured debt ratings is stable, reflecting that any potential deterioration in asset risk would be offset by improved profitability. The stable outlook also reflects Moody's Ratings' expectation that the bank will maintain its liability structure, resulting in an unchanged notching uplift from Moody's Ratings' Advanced LGF analysis.

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

VBW's deposit ratings could be upgraded if the bank's BCA is upgraded or following a significant increase in the volume of bail-inable liabilities beyond Moody's Ratings' current expectations.

The BCA could be upgraded if the bank manages to sustainably safeguard its improved profitability, thereby establishing a robust track record following a decade of restructuring and optimization, leading to a further improvement of its capitalisation. Any upgrade will be contingent upon VBW maintaining a prudent and well-controlled risk appetite, resulting in a sound and largely stable asset quality through the cycle, as well as keeping intact its defensive funding and liquidity profile.

VBW's ratings could be downgraded as a result of a downgrade of its BCA, or fewer notches of rating uplift from Moody's Ratings' Advanced LGF analysis. The BCA could be downgraded should VBW experience a meaningful deterioration in asset quality, eroding its profitability or capital or if the bank witnessed an increased reliance on market funding coupled with a significant decline in liquidity beyond Moody's Ratings' current expectations.

## 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.

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