

Rating Action: Moody's upgrades Hypo Vorarlberg's long-term debt and deposit ratings to A3; outlook stable

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Baseline credit assessment upgraded to baa2 from baa3

Frankfurt am Main, February 07, 2018 -- Moody's Investors Service has today upgraded Hypo Vorarlberg Bank AG's (Hypo Vorarlberg) long-term senior unsecured debt, issuer and deposit ratings by one notch to A3 from Baa1, and maintained a stable outlook on these ratings. Moody's also upgraded Hypo Vorarlberg's subordinate MTN program rating to (P)Baa3 from (P)Ba1 and affirmed the bank's short-term issuer and deposit ratings at P-2.

Concurrently, Moody's upgraded the bank's Baseline Credit Assessment (BCA) and adjusted BCA to baa2 from baa3 and its Counterparty Risk (CR) Assessments to A2(cr)/P-1(cr) from A3(cr)/P-2(cr).

The rating upgrade reflects the strengthening of the bank's financial fundamentals following the capital measures agreed upon and partly executed at the end of 2017 which will strengthen the bank's ability to establish its risk-weighted core capital ratios sustainably above 13% going forward. The upgrade also incorporates the reduced exposure to tail risks, following the maturity of the largest part of the deficiency-guaranteed liabilities issued by Austria's Landeshypothekenbanks, including its joint issuance vehicle Pfandbriefbank (Oesterreich) AG (Pfandbriefbank).

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

-- UPGRADE OF THE BCA

The upgrade of the BCA to baa2 from baa3 reflects the bank's sustainably improved capitalisation and its reduced asset tail risks. In December 2017, Hypo Vorarlberg executed a synthetic securitisation transaction that has helped the bank to reduce its risk-weighted assets. In parallel, we expect a conversion of legacy capital instruments into high trigger Additional Tier 1 and common equity instruments that will strengthen in the near term its Tangible Common Equity, Moody's key metric measuring core bank capital.

At the same time, Moody's expects Hypo Vorarlberg's problem loan ratios to have further improved in 2017 and to remain at low levels in 2018, despite the impairment of its participation in venture capital subsidiary Hypo Equity Unternehmensbeteiligungen AG. The positive asset risk trends have been reinforced by a reduction of tail risks associated with the joint and several liability Hypo Vorarlberg has been sharing in Pfandbriefbank.

The baa2 BCA is also based on Hypo Vorarlberg's success in better spreading out its maturity profile following the refinancing of its 2017 bond maturities, while at the same time maintaining sufficient liquid resources.

-- UPGRADE OF LONG-TERM RATINGS TO A3

The one-notch upgrade of Hypo Vorarlberg's long-term ratings to A3 reflects the one-notch upgrade of the bank's BCA and adjusted BCA to baa2 from baa3 while the result of Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in resolution, provides an unchanged two notches rating uplift to Hypo Vorarlberg's long-term instrument classes.

The refinancing in 2017 of Hypo Vorarlberg's somewhat concentrated senior unsecured and subordinated liabilities has not led to a material reduction in the amount of subordinated and equal-ranking debt issued by Hypo Vorarlberg.

-- STABLE OUTLOOK ON HYPO VORARLBERG'S LONG-TERM RATINGS

The stable outlook on the long-term senior unsecured debt, issuer and deposit ratings of Hypo Vorarlberg

incorporates Moody's expectation that Hypo Vorarlberg will be able to sustain stronger capitalisation levels in the medium term and to further reduce its foreign currency (CHF-denominated) asset exposures. At the same time, Moody's expects the bank to maintain a broadly stable liability structure and adequate liquid resources.

-- WHAT COULD MOVE THE RATINGS UP/DOWN

Upward pressure on Hypo Vorarlberg's BCA and its long-term ratings could result from: (1) further improvement of its capital ratios, (2) a continued reduction in market funding reliance or an improvement in unencumbered liquid assets and (3) sustainably positive net income trends.

Hypo Vorarlberg's ratings could be downgraded if the bank's liability structure's dependence on secured funding sources were to increase beyond the rating agency's current expectations, at the expense of bail-in-able senior unsecured and subordinated debt components. The ratings could also be downgraded if Hypo Vorarlberg's financial strength unexpectedly and significantly deteriorated following: (1) renewed signs of asset quality weakness, particularly if investments of its subsidiary Hypo Equity attracted significant additional impairments; and/or (2) a material reduction of its capitalisation.

LIST OF AFFECTED RATINGS

Upgrades:

-LT Bank Deposits (Local & Foreign Currency), Upgraded to A3 from Baa1, Outlook remains Stable
-LT Senior Unsecured (Local & Foreign Currency), Upgraded to A3 from Baa1, Outlook remains Stable
-Senior Unsecured MTN (Local Currency), Upgraded to (P)A3 from (P)Baa1
-LT Issuer Rating (Local & Foreign Currency), Upgraded to A3 from Baa1, Outlook remains Stable
-Subordinate MTN (Local Currency), Upgraded to (P)Baa3 from (P)Ba1
-Adjusted Baseline Credit Assessment, Upgraded to baa2 from baa3
-Baseline Credit Assessment, Upgraded to baa2 from baa3
-LT Counterparty Risk Assessment, Upgraded to A2(cr) from A3(cr)
-ST Counterparty Risk Assessment, Upgraded to P-1(cr) from P-2(cr)

Affirmations:

-ST Bank Deposits (Local & Foreign Currency), Affirmed at P-2
-ST Issuer Rating (Local & Foreign Currency), Affirmed at P-2

Outlook Actions:

-Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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