MOODY'S RATINGS

CREDIT OPINION

3 July 2025

Update

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RATINGS

Hypo Vorarlberg Bank AG

Domicile	Bregenz, Austria
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Dom Curr
Outlook	Not Assigned
Long Term Debt	A3
Type	Senior Unsecured - Fgn Curr
Outlook	Negative
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Hypo Vorarlberg Bank AG

Update following outlook change to negative

Summary

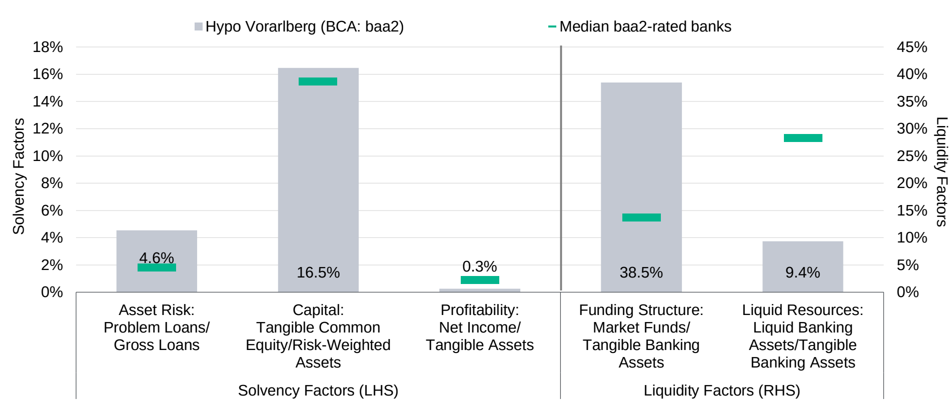
Hypo Vorarlberg Bank AG's (Hypo Vorarlberg) A3 deposits and senior unsecured debt ratings reflect the bank's baa2 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as two notches of uplift from our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class. Hypo Vorarlberg's ratings do not benefit from government support uplift because of its small size in the context of the Austrian banking system.

Hypo Vorarlberg's baa2 BCA reflects its overall resilient financial profile, despite a significant deterioration of its asset quality, primarily driven by the bank's concentrated exposures to corporate and commercial real estate (CRE) borrowers. In particular, development projects are under pressure from higher refinancing and construction costs as well as reduced retail demand. Consequently, we anticipate that Hypo Vorarlberg's problem loans will remain elevated over the next 12-18 months at least. The baa2 BCA also considers mitigating factors that enable the bank to offset the increased cost of risk resulting from the aforementioned challenges.

These mitigating factors include Hypo Vorarlberg's modest pre-provision profitability, allowing the bank to remain profitable and sustain its solid capitalisation, thereby maintaining a substantial buffer above regulatory minimums. The baa2 BCA also reflects Hypo Vorarlberg's solid liquidity, as well as its stable funding. The bank's overall high dependence on confidence-sensitive wholesale funding, including the issuance of covered bonds, is mitigated by a well-established market access as well as a balanced maturity profile.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Strong capitalisation and low balance sheet leverage provide substantial buffers against adverse market developments

» On-balance sheet reserves mitigate Hypo Vorarlberg's increased asset risks from regional and sector concentrations which include commercial real estate exposure

Credit challenges

» Weakening asset quality, driven by sizeable exposure to the domestic commercial real estate sector

» Moderate and weakening profitability is burdened by elevated credit costs, limiting Hypo Vorarlberg's ability to retain earnings

» Hypo Vorarlberg's high reliance on wholesale funding is mitigated by a well established covered bond franchise and improved liquid resources

Outlook

» The negative outlook reflects our expectation of an extended period of above-average problem loans and related higher cost of risk that have the potential to strain Hypo Vorarlberg'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

» Although currently unlikely given the negative outlook, 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 successful workout of problem loan exposures and a concurrent reduction in undue credit concentrations without meaningful losses. Any upgrade remains contingent on a simultaneous improvement in underlying profitability, as well as a meaningful reduction in more confidence-sensitive market funding.

Factors that could lead to a downgrade

» 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 asset quality, in particular if it fails to reduce its problem loans or faces a further more pronounced deterioration in asset quality, a reduction in its capitalisation, or a meaningful and sustained decline in profitability. The BCA could also be downgraded should the bank become more dependent on market funding or if it faces a reduction of its currently solid liquid resources.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2
Hypo Vorarlberg Bank AG (Consolidated Financials) [1]

	12-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	14.8	15.1	14.9	15.3	14.9	(0.3)[4]
Total Assets (USD Billion)	15.3	16.6	15.9	17.4	18.2	(4.3)[4]
Tangible Common Equity (EUR Billion)	1.5	1.4	1.4	1.3	1.2	4.8[4]
Tangible Common Equity (USD Billion)	1.5	1.6	1.5	1.5	1.5	0.5[4]
Problem Loans / Gross Loans (%)	4.5	4.0	2.6	2.7	2.7	3.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.5	16.2	16.2	15.3	14.3	15.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	30.0	26.6	17.5	18.9	19.0	22.4[5]
Net Interest Margin (%)	1.6	1.6	1.1	1.3	1.2	1.4[5]
PPI / Average RWA (%)	1.3	1.5	1.7	1.3	1.1	1.4[6]
Net Income / Tangible Assets (%)	0.3	0.3	0.8	0.4	0.3	0.4[5]
Cost / Income Ratio (%)	58.1	54.0	52.6	57.8	58.1	56.1[5]
Market Funds / Tangible Banking Assets (%)	38.5	39.3	38.7	45.2	44.3	41.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	9.4	12.5	12.5	17.6	14.4	13.3[5]
Gross Loans / Due to Customers (%)	216.4	208.2	188.6	191.8	183.1	197.6[5]

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

As a universal bank, Hypo Vorarlberg operates a regional business model with a strong focus on the State of Vorarlberg in Austria, and adjacent regions of Germany, Italy, and Switzerland. The bank offers a broad range of retail and corporate banking services, including investment products and advice, and also serves institutional customers, real estate investors as well as public sector entities and financial institutions

As of 31 December 2024, Hypo Vorarlberg reported assets of €15.3 billion and operated domestically through a network of 19 branches. The Bregenz-based bank also operates a branch in nearby St. Gallen, Switzerland, and several subsidiaries in Italy. The bank's major shareholder is the State of Vorarlberg, which holds 76.9% of its share capital. The remaining shares are held by Landesbank Baden-Wuerttemberg (LBBW, Aa2 stable, baa2)[1] with a 15.4% share and Landeskreditbank Baden-Wuerttemberg Foerderbank (L-Bank, Aaa stable)[2] with a 7.7% share.

Weighted Macro Profile of Strong (+)

Hypo Vorarlberg's activities are mainly focused on Austria. Therefore, the bank's Weighted Macro Profile is aligned with Austria's Strong (+) Macro Profile. Hypo Vorarlberg also operates in neighboring countries of Germany, Switzerland, and Italy, and the bank has international exposures through its diversified investment portfolio.

Detailed credit considerations

Weakening asset quality, driven by sizeable exposure to the domestic commercial real estate sector

Hypo Vorarlberg's assigned Asset Risk score is ba2, four notches below its initial score. Our downward adjustment reflects regional and sector concentration risks arising from the bank's meaningful exposure to the domestic commercial real estate (CRE) sector and our expectation of rising problem loans over the next 12 months and potentially beyond. Further, its small-size regional banking franchise exhibits geographic concentrations mainly from corporate lending in its home region Vorarlberg, and adjacent German, Italian and Swiss regions.

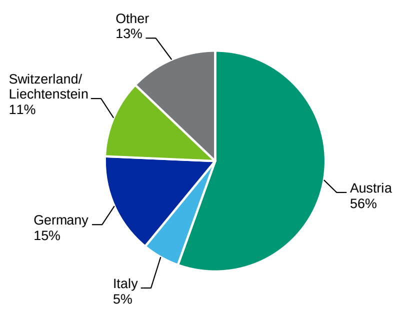
Hypo Vorarlberg faces weakening asset quality from sizeable concentrations to corporates (2024: €4.9 billion, equivalent to 333% of Tangible Common Equity, TCE), and CRE (€4.7 billion or 316% of TCE). Following benign credit conditions in the years 2019-22, Hypo Vorarlberg's problem loan ratio increased to 4.5% in 2024, up from 4.0% in 2023 and 2.6% in 2022. This deterioration mainly stems from domestic corporate lending, including CRE, and the bank's reduced coverage ratio[3] of 28% as of the end of 2024 (2023: 37%) is at the low end of its Austrian peer group.

Due to higher credit costs, general cost inflation, and weak property demand, we anticipate that loans for unfinished or unsold CRE properties will remain under significant pressure over the next 12 to 18 months, resulting in elevated problem loans which are likely to require further additions to credit provisions, adding strain to the bank's only moderate profitability generation.

Exhibit 3

Hypo Vorarlberg's exposure at default by country ...

Data as of year-end 2024, total = €17.0 billion

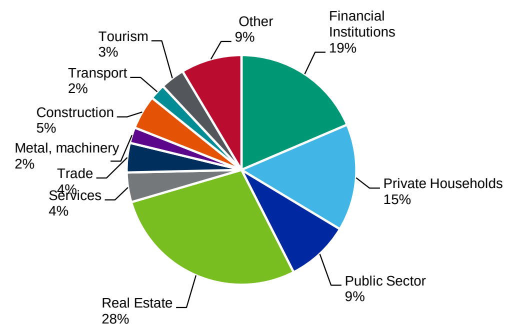


Source: Company reports, Moody's Ratings

Exhibit 4

... is geared to corporates and real estate customers

Data as of year-end 2024, total = €17.0 billion



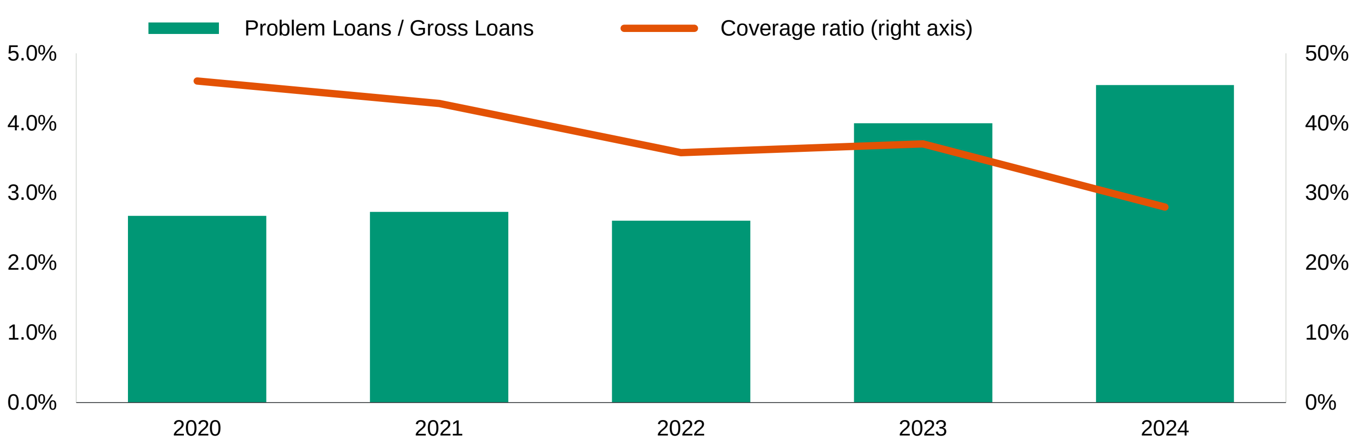
Source: Company reports, Moody's Ratings

We further believe that Hypo Vorarlberg faces reduced but still moderate tail risks from its 1.6 billion CHF-denominated loans, or 15% of gross loans as of the end of 2024, reflecting that around 70% of these loans relate to Swiss customers of its St. Gallen branch, which allows the Bregenz-based bank to fund Swiss franc loans with Swiss franc deposits.

Exhibit 5

Hypo Vorarlberg's asset quality has further deteriorated last year and its credit provisions have declined

Data in %



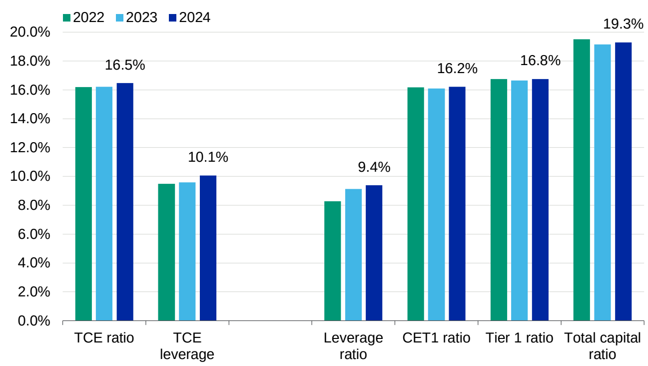
Source: Company reports, Moody's Ratings

Solid capitalisation and low balance sheet leverage provide substantial buffers against adverse market developments

Hypo Vorarlberg's assigned Capital score is a1, two notches below the initial score. The negative adjustment reflects our expectations of negative risk migration leading to higher risk-weighted assets (RWAs) and a moderate decline of the bank's Tangible Common Equity (TCE) ratio to below 15.0%, reflective of further loan growth and the implementation effects of the final Basel rules. Our favorable capital assessment benefits from Hypo Vorarlberg's strong balance sheet leverage[4], which ranks favorably to domestic peers, and supports its baa2 financial profile.

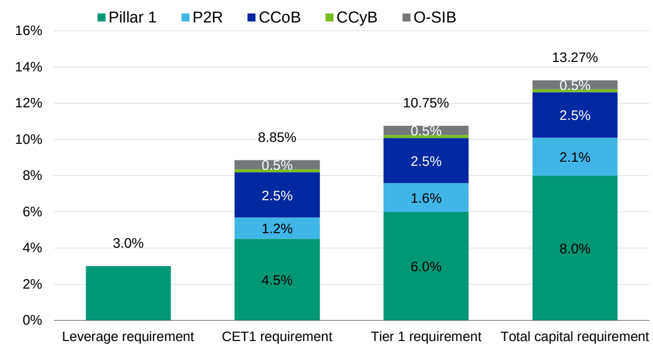
Hypo Vorarlberg' capitalisation slightly increased last year, as demonstrated by its Tangible Common Equity (TCE) ratio of 16.5% at the end of 2024. We expect that Hypo Vorarlberg will keep its solid capital buffers well above regulatory minimum requirements. Further, in 2024, Hypo Vorarlberg's TCE leverage ratio[5] further increased to 10.1%, compared with 9.6% in 2023. Hypo Vorarlberg's strong leverage ratio reflects that the application of the standardised approach to calculate its credit-risk RWA and the fact that around two-thirds of its loans arise from corporate loans that attract higher risk-weights than retail exposures. As a result, the bank's risk-density, which compares RWA to tangible assets, was relatively high at 61% at the end of 2024.

Exhibit 6
Hypo Vorarlberg has solid capital; Moody's against regulatory view
Data in %



Note: TCE = Tangible Common Equity; CET1 = Common Equity Tier 1; *TCE leverage ratio compares TCE to tangible assets.
Source: Company reports, Moody's Ratings

Exhibit 7
Hypo Vorarlberg's regulatory minimum requirements in detail
Data in %



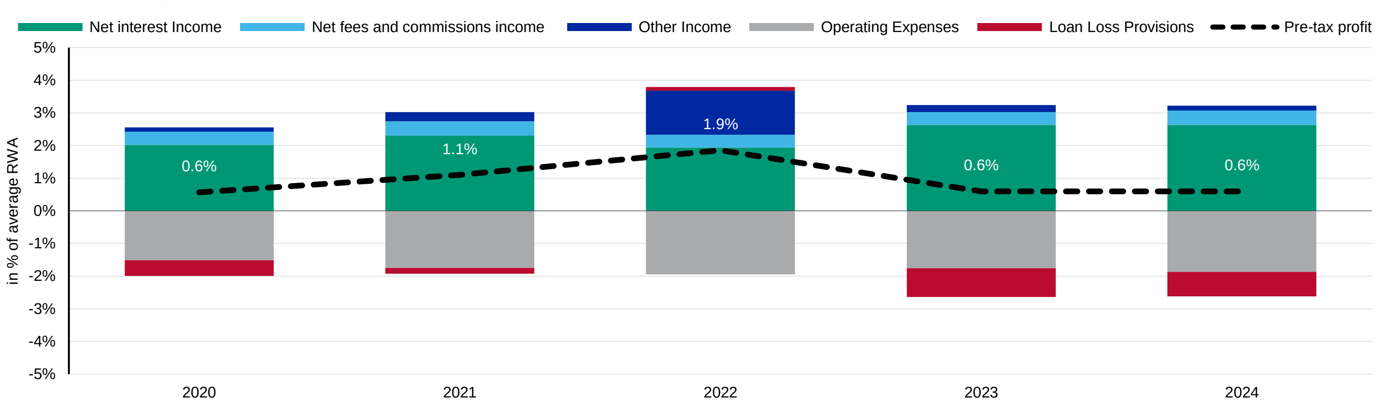
Note: CCoB = Capital Conservation buffer; CCyB =Countercyclical Buffer; O-SIIB = Other Systemically Important Institutions Buffer; P2R = Pillar 2 Requirement.
Source: Company reports, Moody's Ratings

Moderate and weakening profitability is burdened by elevated credit costs, limiting Hypo Vorarlberg's ability to retain earnings

Hypo Vorarlberg's assigned Profitability score is ba3, one notch below the initial score. We expect that the bank's earnings will remain strained by elevated credit costs, associated with the ongoing asset quality challenges of its CRE exposures.

For the five year period 2018-22, Hypo Vorarlberg's average net income to asset ratio (our measure of return on assets) was around 45 basis points (bps), roughly in-line with the profitability level for rated Austrian peers. In 2023 and 2024, the bank's ROA declined to 25 bps and 28 bps, mainly because provisions for credit losses increased to 74 bps and 62 bps of gross loans, respectively, compared with an average of only 15 bps for the 2018-22 period.

Exhibit 8
In 2023 and 2024, Hypo Vorarlberg's profitability declined because of rising credit costs
Data in % of average RWA



Source: Company reports, Moody's Ratings

Hypo Vorarlberg's high reliance on wholesale funding is mitigated by a well established covered bond franchise and improved liquid resources

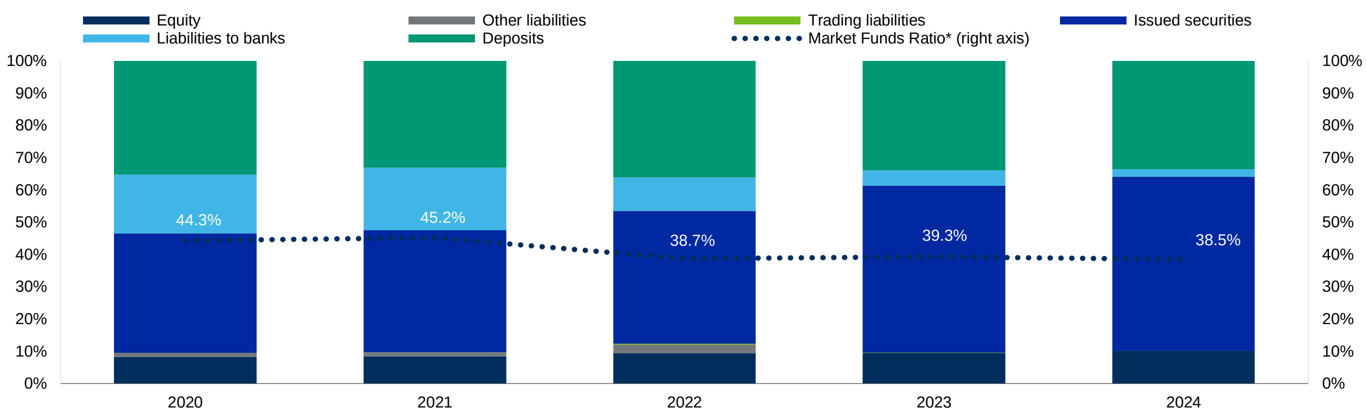
Hypo Vorarlberg's assigned Funding Structure score is ba2, in line with the initial score, capturing our expectation of an unchanged high market funding dependence over the next 12-18 months.

Hypo Vorarlberg displays a more evenly staggered maturity profile, largely owing to the issuance of covered bonds, equivalent to 35% of liabilities in 2024, up from 18% in 2017. This helped improve its Market Funds ratio to around 40% last year since our ratio only includes 50% of the covered bonds issued. Nevertheless, Hypo Vorarlberg's high reliance on wholesale funding reflects its narrow retail banking franchise, a view which is underpinned by a relatively high gross loan-to-deposit ratio of 216% in 2024 (2023: 208%), rendering it susceptible to changes in market conditions for wholesale funding and limiting its refinancing options under adverse market conditions. Deposits accounted for €4.9 billion in 2024, or only 32% of the bank's liabilities, down from 36% in 2019, a low proportion when compared to banks with countrywide branch networks.

Exhibit 9

Hypo Vorarlberg's reliance on wholesale funding remains high but has somewhat declined, reflecting the benefit of from its well-established covered bond franchise

Liabilities in percent of tangible banking assets



*Market Funds Ratio = Market Funds / Tangible Banking Assets

Source: Company reports, Moody's Ratings

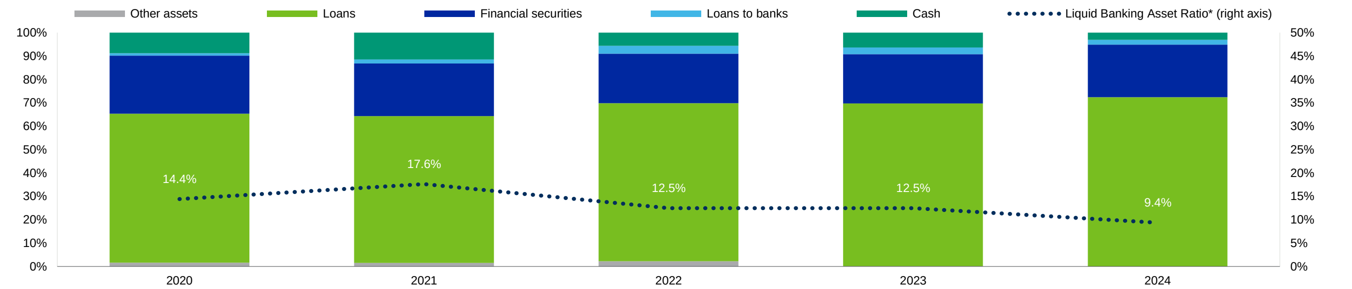
Hypo Vorarlberg's operates with sizeable buffers above its Minimum Requirement for own funds and Eligible Liabilities (MREL), which adds flexibility to its annual funding needs of around €700 million to €1.2 billion. This is because these market funds can be mainly sourced from covered bonds and not necessarily by more costly senior unsecured debt. As of the end of 2024, Hypo Vorarlberg exhibited an MREL surplus of around 20% in terms of RWA, compared with a requirement of 22.6% of RWA.

Improved liquidity benefits from reduced asset encumbrance

Hypo Vorarlberg's assigned Liquid Resources score is baa2, three notches above the initial score. Our positive adjustment considers high-quality financial securities which are not included in our Liquid Banking Asset (LBA) ratio, the bank's reduced level of encumbered assets, reflecting the full repayment of TLTRO III funds, as well as its ability to use its overcollateralized cover pool to source additional liquidity at short notice, if needed. These positive adjustments are balanced by our expectation of declining liquid resources over time as Hypo Vorarlberg aims to expand its loan book.

Hypo Vorarlberg's improved liquidity is also underpinned by a higher Liquidity Coverage Ratio (LCR), which increased to 214% as of the end of the fourth quarter 2024, from 198% a year earlier and includes high-quality liquid assets (HQLA) of €2.3 billion, equivalent to 15% of assets.

Exhibit 10
Hypo Vorarlberg's on balance-sheet liquid resources remain stable
Asset composition, in percent of tangible banking assets

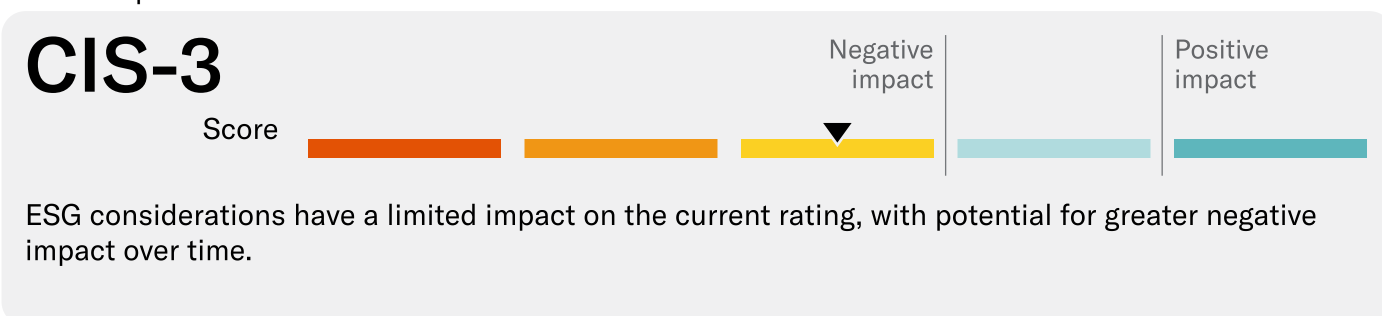


*Liquid Banking Assets Ratio = Liquid Assets / Tangible Banking Assets
Source: Company reports, Moody's Ratings

ESG considerations

Hypo Vorarlberg Bank AG's ESG credit impact score is CIS-3

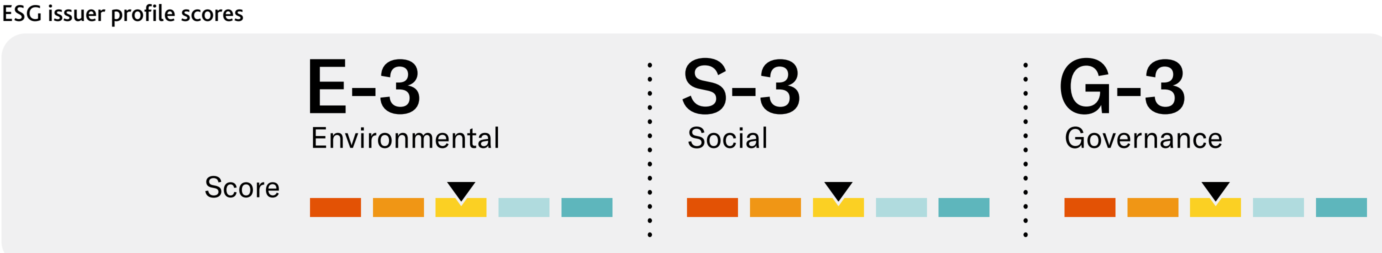
Exhibit 11
ESG credit impact score



Source: Moody's Ratings

Hypo Vorarlberg's **CIS-3** indicates the limited impact of ESG considerations on the current rating, with potential for greater impact over time, reflecting governance considerations related to commercial real estate (CRE) concentration risks and risk appetite. Environmental and social risks have a limited credit impact on the rating to date.

Exhibit 12
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Hypo Vorarlberg faces moderate exposure to environmental risks primarily because of its loan portfolio exposure to carbon transition risks as a diversified regional banking group. Carbon transition risks relate mostly to its corporate loan book, which represents about three-quarters of the bank's lending portfolio, with the remainder comprising residential real estate. In line with its peers, Hypo Vorarlberg is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, the bank is actively engaging in further developing its comprehensive risk management and climate risk reporting frameworks and tries to align its business with the transition to a low-carbon economy.

Social

Hypo Vorarlberg faces moderate social risks mainly related to customer relation risks, to demographic and societal trends. The bank's developed policies and procedures mitigate conduct risk associated with the distribution of financial products such as regulatory and reputational risks, as well as exposure to litigation. The bank is required to meet high compliance standards. High cyber and personal data risks are mitigated by technology solutions and organizational measures to prevent data breaches.

Governance

Hypo Vorarlberg's governance risks are moderate. 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 Hypo Vorarlberg's overall asset quality and profitability prospects, necessitating the bank to keep contained further asset quality deterioration and sustainably reduce its problem loans, thereby safeguarding profitability and capital. As a public-sector bank, Hypo Vorarlberg is 76.9% owned by the State of Vorarlberg, which is reflected in the composition of its board of directors. Austria's developed institutional framework mitigates associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure analysis

Hypo Vorarlberg is subject to the EU Bank Recovery and Resolution Directive (BRRD), which is an operational resolution regime. Therefore, we apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution, using our standard assumptions.

Our LGF analysis indicates that Hypo Vorarlberg's deposits and senior unsecured debt is likely to face very low loss-given-failure, resulting in two notches of uplift from the bank's baa2 Adjusted BCA.

For Hypo Vorarlberg's subordinated debt, our LGF analysis indicates a high loss given failure, leading us to position the rating one notch below its baa2 Adjusted BCA.

Government support considerations

Austrian banks operate in an environment of weak prospects for financial assistance from the government. Therefore, we generally assume a "low" probability of support for banks that are not considered of global or domestic systemic relevance, including Hypo Vorarlberg. As a result, we do not apply a rating uplift for government support in our ratings for Hypo Vorarlberg.

Methodology and scorecard

The principal methodology we used in rating Hypo Vorarlberg was Banks Methodology.

Rating methodology and scorecard factors

Exhibit 13
Rating Factors

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		4.5%	baa1	↓	ba2	Sector concentration	Geographical concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		16.5%	aa2	↔	a1	Risk-weighted capitalisation	Expected trend
Profitability							
Net Income / Tangible Assets		0.3%	ba2	↔	ba3	Return on assets	Expected trend
Combined Solvency Score			a3		baa3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		38.5%	ba2	↔	ba2	Extent of market funding reliance	Expected trend
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		9.4%	ba2	↔	baa2	Additional liquidity resources	Asset encumbrance
Combined Liquidity Score			ba2		ba1		
Financial Profile			baa2		baa3		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					Aa1		
BCA Scorecard-indicated Outcome - Range					baa2 - ba1		
Assigned BCA					baa2		
Affiliate Support notching					0		
Adjusted BCA					baa2		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	6,041	41.0%	6,546	44.4%
Deposits	4,946	33.5%	4,441	30.1%
Preferred deposits	3,660	24.8%	3,477	23.6%
Junior deposits	1,286	8.7%	964	6.5%
Senior unsecured bank debt	2,973	20.2%	2,973	20.2%
Dated subordinated bank debt	295	2.0%	295	2.0%
Preference shares (bank)	50	0.3%	50	0.3%
Equity	442	3.0%	442	3.0%
Total Tangible Banking Assets	14,748	100.0%	14,748	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	32.0%	32.0%	32.0%	32.0%	3	3	3	3	0	a2
Counterparty Risk Assessment	32.0%	32.0%	32.0%	32.0%	3	3	3	3	0	a2 (cr)
Deposits	32.0%	5.3%	32.0%	25.5%	2	3	2	2	0	a3
Senior unsecured bank debt	32.0%	5.3%	25.5%	5.3%	2	2	2	2	0	a3
Dated subordinated bank debt	5.3%	3.3%	5.3%	3.3%	-1	-1	-1	-1	0	baa3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	0	A2	
Counterparty Risk Assessment	3	0	a2 (cr)	0	A2(cr)	
Deposits	2	0	a3	0	A3	A3
Senior unsecured bank debt	2	0	a3	0	A3	A3
Dated subordinated bank debt	-1	0	baa3	0	(P)Baa3	Baa3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 14

Category	Moody's Rating
HYPO VORARLBERG BANK AG	
Outlook	Negative
Counterparty Risk Rating -Dom Curr	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
Senior Unsecured	A3
Subordinate	Baa3
ST Issuer Rating	P-2

Source: Moody's Ratings

Endnotes

1 The ratings shown is LBBW's long-term issuer rating, outlook, and BCA.
2 The rating shown is L-Bank's long-term issuer rating and outlook.
3 The coverage ratio compares specific and generic loan-loss-reserves to non-performing loans.
4 Leverage compares equity to assets.
5 Our TCE leverage ratio compares Tangible Common Equity to Tangible Banking Assets.

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