MOODY'S RATINGS

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

18 Jun 2025

Frankfurt am Main, June 18, 2025 -- 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 has been changed to negative from 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 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.

In affirming Hypo Vorarlberg's baa2 BCA, we have considered strong 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 affirmation 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.

Considering the above challenges, we have revised Hypo Vorarlberg'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. 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 Hypo Vorarlberg's deposits, senior unsecured debt, and subordinated debt ratings reflects the affirmation of the bank's baa2 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, ISSUER, AND SENIOR UNSECURED DEBT RATINGS

The change in outlook to negative from stable on the bank's long-term deposit, issuer, 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 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 OR DOWNGRADE OF THE RATINGS

Although currently unlikely reflecting 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.

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.

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.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

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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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880.

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