S&P Global
Ratings

RatingsDirect®

Research Update:

Hypo Vorarlberg Bank AG Rating Lowered To 'A' On Weakened Profitability; Outlook Remains Negative On Asset Quality Risk

June 17, 2025

Primary contact

Maria Modena
Frankfurt
49-69-33999-259
Maria.Modena
@spglobal.com

Secondary contact

Cihan Duran, CFA
Frankfurt
49-69-33999-177
cihan.duran
@spglobal.com

Overview

- Hypo Vorarlberg Bank AG's financial performance is significantly affected by elevated credit losses and pressure on the cost base, and we expect its performance to remain weaker than peers', reducing its resilience to stress.
- We further consider that ongoing pressure on its asset quality, particularly on its real estate development exposures, could lead to higher-than-expected credit losses.
- We lowered our long-term rating on the bank to 'A' and affirmed the 'A-1' short-term rating.
- The negative outlook reflects our view of ongoing downside risks to the bank's asset quality, which could increase credit losses beyond our base case and potentially put pressure on the bank's capitalization.

Rating Action

On June 17, 2025, S&P Global Ratings lowered its long-term issuer credit rating on Hypo Vorarlberg to 'A' from 'A+'. The outlook on the long-term rating remains negative. At the same time, we affirmed our 'A-1' short-term issuer credit rating on the bank.

Rationale

The downgrade captures that Hypo Vorarlberg's performance and resilience to stress has weakened, and it is no longer in a leading position among Austrian Hypo-type mortgage banks (Hypos). Hypo Vorarlberg's 2024 performance has been significantly impacted by high credit losses and pressure on the cost base, leading to a cost-to-income ratio of approximately 57% and a return on equity of about 3% (S&P Global Ratings' metrics). These figures are notably weaker than the average of other hypo banks, which stand at around 51% and 7%, respectively. We anticipate that the bank's performance will continue to lag its peers due to ongoing credit losses and cost pressures, and we forecast a further decline in efficiency to a cost-to-income ratio of approximately 63% in 2025, amplified by lower net interest income due to falling interest rates. Consequently, we project Hypo Vorarlberg's earnings buffer will decrease to below 0.2% in 2025-2027 from about 0.4% in 2024, significantly lower than our estimated medians of 1.6% for rated Austrian banks and 1.5% for European banks in 2025. This indicates a diminished capacity for Hypo Vorarlberg to absorb normalized credit losses through operating income over a full economic cycle. We no longer believe that the bank's relatively more diversified business model, with a higher focus on corporate sector and geographic diversification, will result in a structurally stronger financial performance compared with other Hypos. Consequently, we revised down our assessment of Hypo Vorarlberg's stand-alone credit profile (SACP) to 'bbb' from 'bbb+'.

The bank's concentration in the Austrian commercial real estate sector will continue to put pressure on its asset quality. By year-end 2024, the nonperforming loans (NPL) ratio rose to 4.3%, with a cost of risk of approximately 59 basis points (bps), above the rated Austrian banks' average of 3.2% and 33 bps, respectively (S&P Global Ratings' metrics). We anticipate ongoing pressure on asset quality, particularly from commercial real estate exposures, with credit losses and NPLs projected to reach around 44 bps and 5.0% in 2025, followed by only a slight recovery thereafter. Higher-than-expected credit losses may further strain earnings and the bank's strong capitalization, currently its key rating strength. Hypo Vorarlberg's risk-adjusted capital (RAC) ratio stands at 10.6%, well below the 17% average for other Hypos, and we expect it to remain stable at this level over the next two years.

We do not foresee any significant changes to the bank's mandate or ownership. Our current rating on Hypo Vorarlberg incorporates three notches of uplift for potential extraordinary government support, in addition to its 'bbb' SACP, resulting in an 'A' long-term issuer credit rating. We understand that a strategic review will be initiated by the state's parliament in the third quarter of 2025 to potentially refine the bank's strategy, particularly in light of larger single defaults in its portfolio. In our base case, we do not expect any material changes; rather, we anticipate some strengthening of oversight and governance, along with a probable reduction in higher-risk exposures. We do not expect alterations to the state's participation share at 77%. However, we will closely monitor any potential changes to the bank's mandate and ownership structure, as these could undermine its link and role with the state, affect the number of support notches we factor into our rating, and influence the ongoing implicit support, which we positively reflect in the bank's SACP.

Outlook

The negative outlook reflects our view that Hypo Vorarlberg continues to face heightened asset quality risk, which could translate into higher credit losses beyond our base case. We consider Hypo Vorarlberg to be a government-related entity (GRE) and our rating on the bank is supported by our view of the owner's creditworthiness. A downgrade of the State of Vorarlberg by one notch would therefore lead us to also downgrade the bank. A change in Hypo Vorarlberg's role for or link with the state could also lead us to reassess the bank's status as a GRE and result in a lower rating, although we consider this scenario unlikely.

Downside scenario

We could lower our rating on Hypo Vorarlberg over the next two years if its asset quality further deteriorates beyond our base case. In addition, we could lower the rating if the bank's RAC ratio drops below 10% on a sustained basis.

We could also lower the rating if we consider that Hypo Vorarlberg's role for or link with the state has weakened. This could, for instance, result from a reduction in ownership share or any major revision of the bank's strategy or mandate for the state.

Upside scenario

An upgrade over the next two years is a remote scenario, in our view. We could revise our outlook to stable if Hypo Vorarlberg shows material improvements in asset quality, maintaining strong capital, with a RAC sustainably above 10%. A precondition for an outlook revision hinges on the bank's unchanged role for and link with the State of Vorarlberg.

Rating Component Scores

	To	From
Issuer Credit Rating	A/Negative/A-1	A+/Negative/A-1
SACP	bbb	bbb+
Anchor	a-	a-
Business position	Constrained (-2)	Moderate (-1)
Capital and earnings	Strong (1)	Strong (1)
Risk position	Moderate (-1)	Moderate (-1)
Funding and liquidity	Adequate and Adequate (0)	Adequate and Adequate (0)
Comparable ratings analysis	0	0
Support	3	3
ALAC support	0	0
GRE support	3	3
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC—Additional loss-absorbing capacity. GRE—Government-related entity.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Hypo Vorarlberg Bank AG, Feb. 19, 2025
- Austria Outlook Revised To Stable From Positive On Fiscal And Economic Challenges; 'AA+/A-1+' Ratings Affirmed, Feb. 14, 2025
- Austria-Based Hypo Vorarlberg Bank AG Affirmed At 'A+/A-1'; Outlook Remains Negative On Asset Quality Risk, Oct. 22, 2024
- State of Vorarlberg, Sept. 16, 2024
- Banking Industry Country Risk Assessment: Austria, Aug. 27, 2024

Ratings List