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CREDIT OPINION
12 March 2021

Update

Rate this Research

RATINGS

Volksbank Wien AG

Domicile	Austria
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Dom Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

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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Volksbank Wien AG

Update following assignment of Baa3 junior senior unsecured rating

Summary

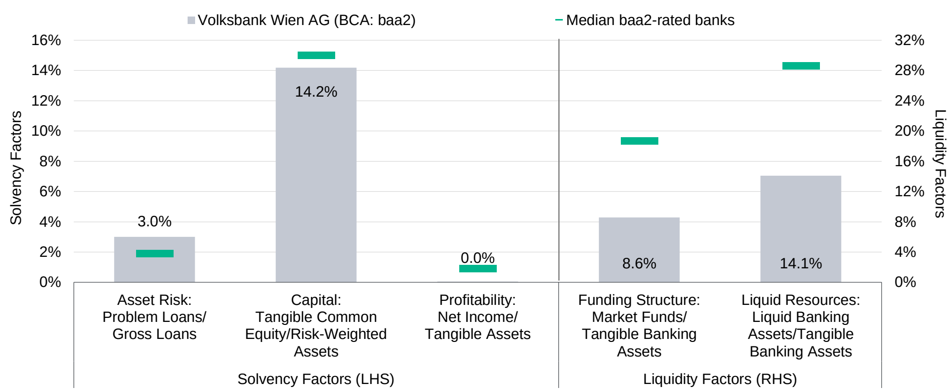
On 5 March, we assigned a first-time Baa3 junior senior unsecured rating to Volksbank Wien AG's (VBW) proposed €500 million non-preferred senior debt issuance. The new assignment had no effect on the Baa1(stable)/P-2 deposit ratings of VBW, the bank's baa2 Baseline Credit Assessment (BCA) and Adjusted BCA, its A2(cr)/P-1(cr) Counterparty Risk (CR) Assessment, and the Baa3 subordinate and Ba2(hyb) ratings of its non-cumulative preference shares.

VBW's Baa1 deposit ratings reflect the bank's baa2 BCA and Adjusted BCA; and one notch of uplift from the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities.

VBW's ratings are based on the consolidated financial statements of Austria's cooperative banking sector, the Volksbanken-Verbund (Verbund), which operates a statutory mutualist support framework that ensures the cohesion of its member banks, and for which VBW serves as the central organization.

The baa2 BCA reflects our expectation that the improvement in the bank's solvency over the past years will provide sufficient buffers to mitigate an expected deterioration in its asset quality, related to the adverse operating environment. With its lending focus on small enterprises, VBW has elevated exposure to businesses that have been significantly challenged by the pandemic. VBW's profitability benefits from an improving cost structure derived from an efficiency program launched in 2018.

Exhibit 1
Rating Scorecard - Key financial ratios



VBW's key financial ratios are calculated based on the consolidated financial statements of the cooperative group.
Source: Moody's Financial Metrics™

Credit strengths

» Very sound funding and liquidity profiles, which benefit from a large deposit base and moderate dependence on market funds

» Adequate capitalisation

» A low level of problem loans

Credit challenges

» Problem loan exposures to increase in the Verbund's small businesses portfolio

» Real estate sector concentrations

» Limited ability to retain capital, based on the remaining repayment obligation of participation rights

Outlook

The stable outlook reflects our view that the group will manage to keep its solvency strength largely unchanged and that VBW will be able to execute its 2021 funding plan.

Factors that could lead to an upgrade

» VBW's ratings could be upgraded if the bank materially improves its standalone intrinsic strength by establishing higher capital buffers than we currently expect following the targeted full repayment of participation right of the Government of Austria (Aa1 stable), in combination with a further improvement in the underlying profitability without experiencing a significant decline in asset quality.

» Further, upward rating pressure could develop if VBW successfully completes its full debt issuance plan to become MREL-compliant by 2025, or in case it accelerates the required placement of bail-in instruments.

Factors that could lead to a downgrade

» The ratings could be downgraded if there is a deterioration in the bank's fundamental credit profile, for instance, if we observe a material weakening in capital metrics, in particular if VBW experienced a substantial increase in problem loans and higher through-the-cycle losses, or a material weakening of VBW's capitalization and buffers to regulatory minimum capital requirements.

» VBW's ratings could also be downgraded if the group significantly reduced its unsecured debt issuance plans or failed to successfully execute these.

Key indicators

Exhibit 2

Volksbank Wien AG (Consolidated Financials) [1]

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	14.1	12.7	11.5	10.6	10.0	10.3[4]
Total Assets (USD Billion)	15.8	14.3	13.2	12.7	10.5	12.3[4]
Tangible Common Equity (EUR Billion)	0.8	0.8	0.7	0.5	0.4	20.5[4]
Tangible Common Equity (USD Billion)	0.9	0.9	0.8	0.6	0.5	22.7[4]
Problem Loans / Gross Loans (%)	2.1	2.8	2.4	3.5	3.6	2.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	20.6	19.2	17.0	14.6	13.3	16.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	12.9	18.1	17.3	29.7	31.1	21.8[5]
Net Interest Margin (%)	0.9	1.0	1.2	1.2	1.0	1.1[5]
PPI / Average RWA (%)	1.0	1.5	1.6	0.7	0.7	1.1[6]
Net Income / Tangible Assets (%)	0.2	0.3	0.6	0.4	0.3	0.3[5]
Cost / Income Ratio (%)	84.8	78.2	79.5	90.5	92.4	85.1[5]
Market Funds / Tangible Banking Assets (%)	40.3	31.5	32.7	32.5	42.9	36.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	41.4	35.5	33.9	47.7	49.5	41.6[5]
Gross Loans / Due to Customers (%)	89.1	85.8	85.4	83.1	92.7	87.2[5]

[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 Investors Service and company filings

Oesterreichischer Volksbanken-Verbund (Consolidated Financials) [1]

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	28.9	27.4	26.6	25.3	24.5	4.9[4]
Total Assets (USD Billion)	32.4	30.8	30.4	30.4	25.8	6.8[4]
Tangible Common Equity (EUR Billion)	2.0	2.1	1.9	1.8	1.7	5.8[4]
Tangible Common Equity (USD Billion)	2.3	2.3	2.2	2.1	1.8	7.7[4]
Problem Loans / Gross Loans (%)	2.1	2.6	3.1	4.2	4.3	3.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.2	13.9	12.9	13.2	12.6	13.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.8	22.9	29.0	39.7	40.4	30.2[5]
Net Interest Margin (%)	1.5	1.6	1.7	1.8	1.6	1.6[5]
PPI / Average RWA (%)	0.7	1.0	0.7	0.8	0.3	0.7[6]
Net Income / Tangible Assets (%)	0.0	0.3	0.4	0.2	-0.3	0.1[5]
Cost / Income Ratio (%)	83.7	78.4	85.9	85.9	94.4	85.7[5]
Market Funds / Tangible Banking Assets (%)	13.9	8.6	5.9	6.1	6.5	8.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.8	14.1	14.2	17.5	17.3	15.4[5]
Gross Loans / Due to Customers (%)	98.4	96.9	93.8	94.8	96.8	96.2[5]

[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 Investors Service and company filings

Profile

Volksbank Wien AG (VBW) is the central organisation of Austria's cooperative banking sector, the Volksbanken-Verbund (Verbund). The Verbund member banks benefit from a statutory mutualist support framework, codified in the Austrian Banking Act, and the cohesion and solidarity within the Verbund, demonstrated by a mutual obligation to support each member institution in case of need.

The Verbund consists of nine primary banks including VBW and of VBW's central organisation. As of 30 June 2020, VBW had 65 branches and the Verbund had 264 branches. The Verbund had 3,372 full-time employees as of 30 June 2020.

The Verbund member banks are predominantly active in Austria. They mainly provide financial services to retail and small and medium-sized enterprises (SMEs). As of 30 June 2020, the Verbund held consolidated assets of €28.9 billion (3.0% of the aggregated balance sheet size of the Austrian banking industry) and reported a net income of €30.3 million for the first half of 2020. In May 2019, immigon portfolioabbau ag (immigon), the wind-down entity of the former central institution of the Volksbanken-Verbund, ceased all banking-related activities and entered liquidation thereafter.

For more information, please see VBW's Issuer Profile.

VBW's domestic exposures determine its Strong+ Macro Profile

VBW and the Verbund are predominantly active in Austria, and the assigned Strong+ Weighted Macro Profile is set at the Strong+ Macro Profile of Austria.

Recent developments

We revised our 2020 baseline growth forecast for all G-20 economies because of the pandemic. All the G-20 countries have sustained severe output losses in 2020, but the contraction in some economies is sharper than in others. We expect the pace of improvement to be asymmetric across countries. The recovery path is beset by uncertainty and will remain highly dependent on the development and distribution of a vaccine, effective pandemic management and government policy support.

Our baseline forecasts assume that difficulty in controlling the virus will hinder the gradual process of recovery in the short term. However, over time, we expect better pandemic management and the availability of an effective vaccine or treatments to reduce the importance of the virus as a macroeconomic variable. The pandemic-induced shock has triggered extraordinary fiscal policy responses from governments in advanced economies, including the US, Europe and Japan, facilitated by a large expansion of their central bank asset purchase programmes.

The European Central Bank (ECB) introduced a series of measures to help the European Union (EU) economies weather the widening effects of the pandemic, temporarily increasing banks' liquidity provisions, as well as lowering regulatory capital and liquidity requirements. As part of these temporary measures, the ECB increased its targeted longer-term refinancing operations (TLTRO III) under more favourable terms, as well as its financial asset purchase programme, while refraining from lowering the ultralow interest rates further. The temporary suspension of buffer requirements for regulatory capital and the liquidity coverage ratio (LCR) gives banks greater flexibility and additional leeway to absorb the economic impacts, such as asset-quality declines. Overall, the package aims to help banks continue to finance corporates, and small and medium-sized enterprises (SMEs) suffering from the effects of the pandemic. The ECB's measures will provide limited relief for banks and their borrowers, and it will require continued significant fiscal policy measures by the EU and its member states to avert higher default rates in banks' lending books.

Austria implemented a large stimulus package that complements the ECB's supportive policy actions. The Austrian government launched emergency corporate lending guarantee programmes and expanded short-time work subsidies. The measures add to automatic stabilisers that support household incomes when unemployment increases. We believe these policy measures will soften the negative economic effects of the coronavirus outbreak, but might not fully mitigate the credit-negative operational effects of the outbreak.

On 26 February, VBW and the Verbund published preliminary 2020 results and reported a €20 million net profit at the Verbund level. In 2019, the reported €148 million net income had been supported by one-off effects, including a €44 million one-off gain from the sale of Volksbank Liechtenstein.

Whereas the Verbund's 2020 result remained positive, several of the member banks individually contributed net losses, in particular those operating in regions more dependent on tourism and related service sectors, which have been affected by the lockdowns imposed in reaction to the pandemic. The Verbund's 2020 full-year result was supported by a €32 million one-off gain from a property sale in H1 2020. The Verbund's pre-provision income continued to benefit from a decline in operating expenses to €512 million (down by €22 million from 2019), whereas the bank managed to maintain the sum of its net interest and fee income stable at €652 million.

Cost of risk increased markedly in 2020, to €126 million or close to 60 basis points (bps) of gross customer loans, up from only 10 bps in the prior year.

The strong increase in provisioning was foremost related to anticipated future impairments, whereas the Verbund's reported problem loan ratio even improved in 2020, to 1.9% from 2.3% in December 2019.

The Verbund's regulatory capital ratios improved strongly during 2020, reflecting both the beneficial effects of the CRR2 quick fix to its risk-weighted assets management and the first-time use of the IFRS9 effect transitional phase in option. Jointly, these effects helped the bank lift its Common Equity Tier 1 (CET1) ratio to 14.1% (December 2019: 12.9%). On a fully loaded basis, the year-end 2020 CET1 ratio stood at 13.5%. Risk-weighted assets declined to €14.2 billion from €14.8 billion as of December 2019, reflecting the group's focus on SMEs. The CRR2 quick fix brought forward a reduction in the risk-weights associated with these borrowers. At the same time, the adoption of IFRS9 effect transitional rules temporarily increases the Verbund's capitalisation by €100 million.

Detailed credit considerations

We assess VBW on the basis of the consolidated financial statements of the Austrian Volksbanken-Verbund. This approach takes into consideration the statutory mutualist support framework, codified in the Austrian Banking Act, and the cohesion and solidarity within the Verbund, demonstrated by a mutual obligation to support each member institution in case of need. As a result, the Verbund member banks, with the exception of VBW, are exempt from reporting individual capital and other regulatory ratios to the European Central Bank, their supervisor. The high level of cooperation within the Verbund is further demonstrated by VBW's role as a central bank institution, which provides ample control rights to the Vienna-based bank, including centralised management of capital, funding, liquidity and risk management.

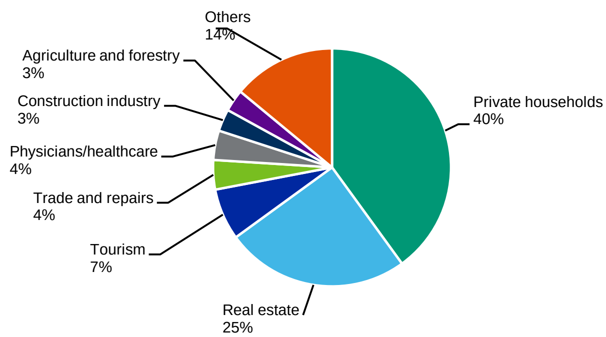
The Verbund's problem loans will increase from current lows

We assign a baa2 Asset Risk score to VBW, two notches below the initial a3 score. The baa2 score includes a negative adjustment for real estate concentration risks. The adjustment also takes into account our expected higher nonperforming loan ratios for VBW and the Verbund's SME exposures, on the back of a still high adoption rate of COVID-19 concessions in the more vulnerable corporate sectors.

Following a decline in problem loans in 2020, we expect the Verbund's asset quality to decline in 2021, because in particular smaller firms will struggle to recover from last year's weak economic environment and the recurring shutdowns in Austria. The sector's total loan book of €21.5 billion, as of H1 2020, was concentrated in banks' SME clients (€11.0 billion), wherein the real estate sector dominated with a total exposure of €5.4 billion. The Verbund's SME client base is overwhelmingly focused on local business activities and generally not integrated into global supply chains. As a result, these businesses are more vulnerable to restrictions on domestic social and business activities rather than to restrictions on international trade. As of 31 January 2021, the share of customer exposures with some form of still active COVID-19-related concessions had declined to 9.0% of the Verbund's €25.7 billion of customer exposures. Since the coronavirus outbreak, 20.7% of exposures had benefitted from such concessions, foremost in the form of payment holidays. In the €16.2 billion commercial customer sub-segment, the adoption rate stood at 13.1%, with the percentage of still active concessions now below 50% of exposures that initially benefitted from moratoria and other COVID-19 related measures. Whereas Verbund customers that have left a moratorium have so far not shown significantly different performance from the rest of the group's customers, we believe customers subject to more extended payment deferrals will find it harder to resume regular payments.

The Verbund's lending exposures are the group's main risk driver, as demonstrated by its gross loans, which accounted for 73% of the Verbund's total assets as of 30 June 2020. The Verbund's €1.5 billion (as of H1 2020) customer receivables from tourism companies are concentrated in family-owned hotels, which will benefit from support measures, including a guarantee framework of the Austrian Hotel and Tourism Bank, a dedicated development bank. In light of the weak winter holiday tourism season 2020/21, a material share of borrowers from the tourism and related service sectors will remain dependent on public support measures, as indicated by as of end-January 2021 reduced, but still high take-up levels of COVID-19 concessions for the tourism, recreation and accommodation sub-segments within the Verbund's lending portfolio.

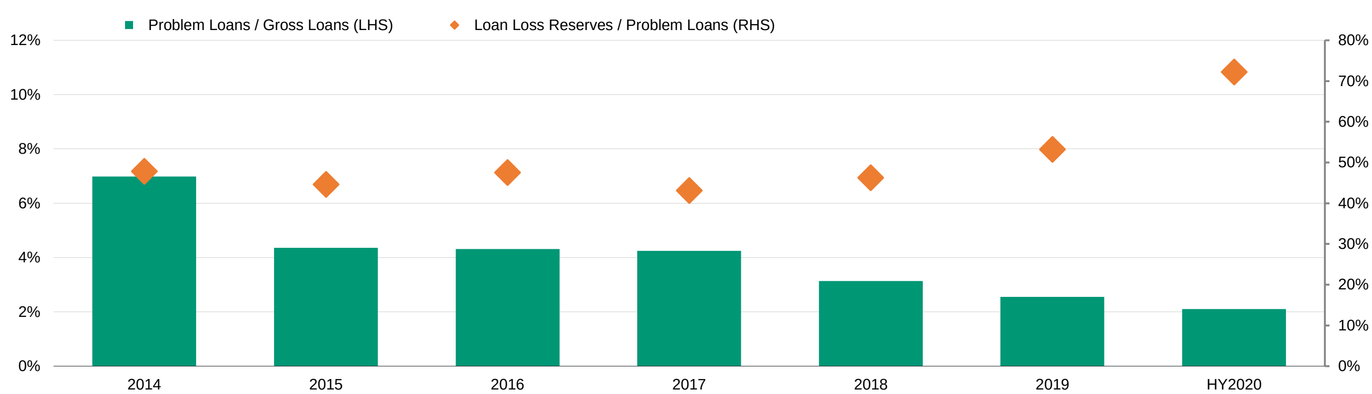
Exhibit 3
Breakdown of Oesterreichischer Volksbanken-Verbund's loan book



As of year-end 2019.
Source: Company report

As of 30 June 2020, the Verbund's reported level of problem loans remained stable at 2.1%, compared with 2.3% as of year-end 2019. At the same time, the Verbund booked additional loan-loss reserves, which now cover 72% of problem loans, which is high in the context of the strong role of real-estate-secured loans in the Verbund's portfolio. The substantial reduction in problem loans since 2014 reflects the restructuring of the Austrian Volksbanken sector, including the separation from immigon in July 2015. The problem loan ratio, excluding the former Oesterreichische Volksbanken AG (VBAG), was 5.1% in 2014.

Exhibit 4
The Verbund has continued to de-risk its loan book after the separation from immigon in July 2015



Sources: Moody's Financial Metrics™ and company presentation

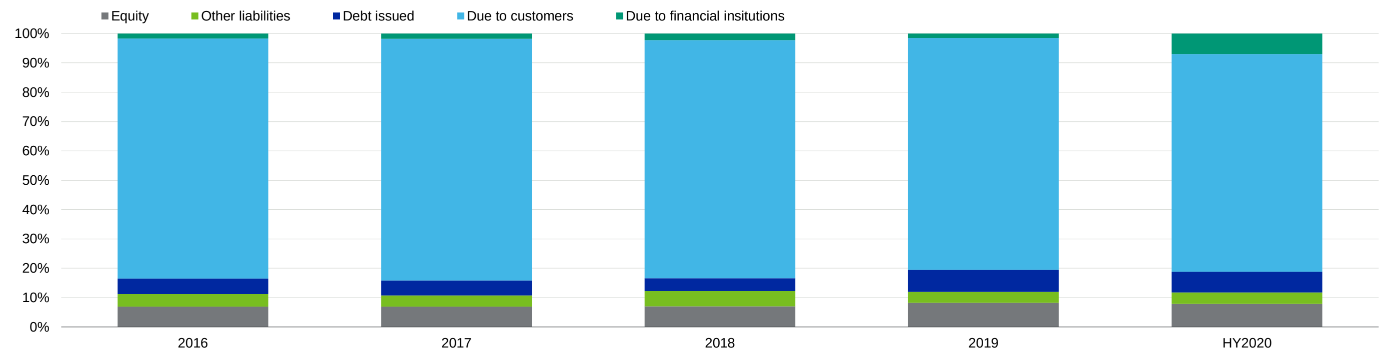
Solid funding profile, which benefits from a large deposit base and low dependence on market funds

The Verbund's funding profile strongly supports VBW's BCA, which is reflected in our a1 assigned Funding Structure score for the bank. It is one notch below the initial score to reflect the fact that the Verbund sourced in June 2020 a total of €1.5 billion of TLTRO III funds from the ECB, which we expect to be gradually replaced by unsecured debt issuances, such as the announced €500 million junior senior unsecured debt issuance, in the context of future regulatory minimum requirements for bail-in-able debt.

In light of very limited near-term maturities, the group will not need to access funding markets this year. The next larger bond maturity is in 2022, when VBW's €400 million tier 2 bond has its first call date.

The a1 Funding Structure score also captures the high granularity of the sector's deposits, which we consider generally more stable than large institutional deposits. As of 30 June 2020, deposits funded 74% of the Verbund's total assets (31 December 2019: 79%) and mainly included current account and savings account deposits from retail clients. As of H1 2020, the gross loan-to-deposit ratio was 95% (December 2019: 105%). The Verbund has a low dependence on market funds, but new issuances of covered bonds, TLTRO funding and our expectation of it being largely replaced by unsecured bond instruments over the next years have been increasing the role of market funding for the Verbund and VBW.

Exhibit 5
Liability structure of Oesterreichischer Volksbanken-Verbund (as a percentage of total assets)



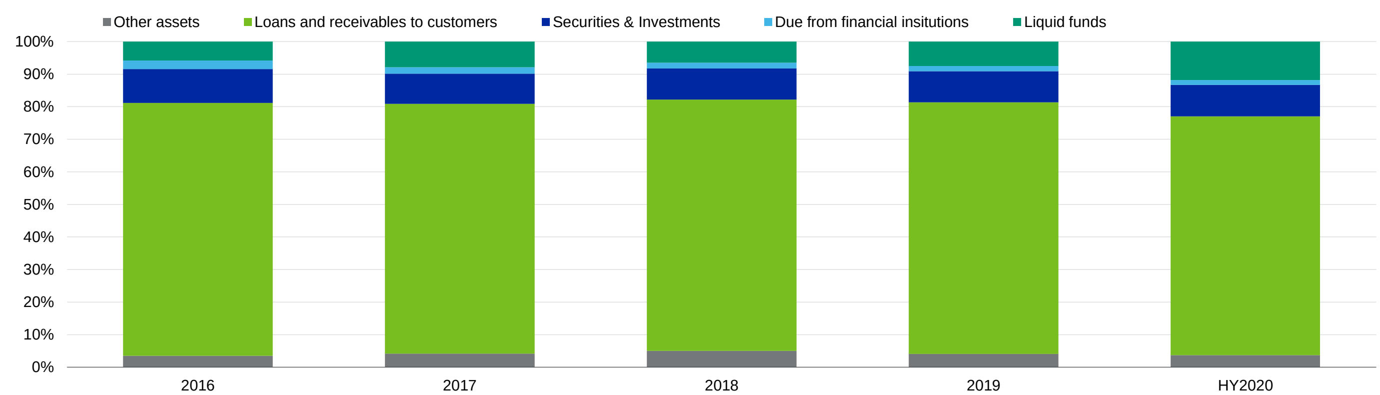
Sources: Moody's Financial Metrics™ and company report

Strong liquidity profile is well positioned for its business profile

We consider VBW and the Verbund's liquidity well positioned to cover their short-term liquidity needs. Our assigned Liquid Resources score of baa2 includes a two-notch upward adjustment to reflect the stock and the high quality of the Verbund's financial security portfolio. As of H1 2020, the Verbund's reported pool of liquid resources[1] was €7.1 billion and the group aims to maintain it at around €7 billion in 2020.

In addition to the Verbund's liquid resources, the group possesses an ample buffer of mortgage claims that qualify as collateral for Volksbank Wien AG - Mortgage Covered Bonds (Aaa), which could quickly increase the 40% nominal overcollateralisation offered by the €3.6 billion of cover pool assets over €2.5 billion of covered bond liabilities as of 30 June 2020.

Exhibit 6
Asset structure of Oesterreichischer Volksbanken-Verbund (as a percentage of total assets)



Sources: Moody's Financial Metrics™ and company report

Adequate capitalisation, but limited ability to retain capital

As reflected in our assigned baa1 Capital score, adjusted three notches downward from an a1 initial score, VBW's and the Verbund's capital ratios are adequate for their risk profiles, which are supportive of the bank's BCA. The baa1 assigned score incorporates the limitations to future earnings retention, based on the remaining repayment obligation of silent participation capital.

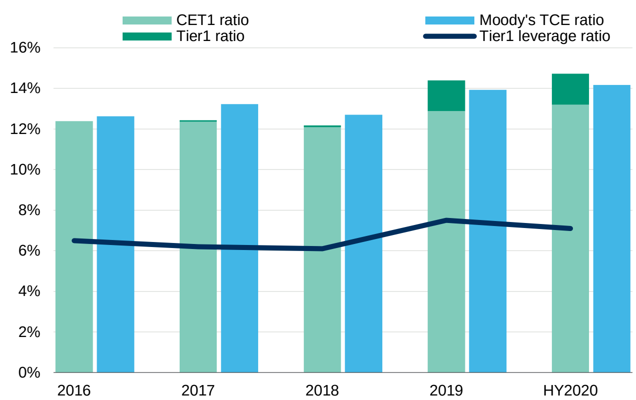
The Verbund's adequate tangible common equity (TCE) ratio of 14.2% as of June 2020 was one percentage point above the regulatory CET1 capital ratio of 13.2% (year-end 2019: 12.9%) because of the regulatory deductions applied to the Verbund's participations. In absolute terms, the CET1 capital remained almost unchanged at €1.9 billion. At the same time, the Verbund benefitted from a decrease in risk-weighted assets to €14.4 billion as of June 2020 from €14.8 billion. To a large extent, this improvement reflects the adoption of the SME supporting factor introduced by the updated capital regulation under the CRR2 quick-fix package, which limits the risk weights for the Verbund's SME exposures to 76.2% of regular risk-weighted assets, which the Verbund conservatively calculates across all lending portfolios under the standardised approach.

Following VBW's issuance of €220 million of low-trigger Additional Tier 1 (AT1) instruments, the Verbund has fully covered the 1.5% gap between regulatory Pillar 1 CET1 requirements and Pillar 1 Tier 1 requirements with AT1 capital. This is reflected in a 14.7% transitional Tier 1 capital ratio as of 30 June 2020, up from 12.4% as of year-end 2018. Because these instruments are contractually designed (through the application of a low write-down trigger of a 5.125% CET1 ratio at the Verbund or VBW level) to absorb losses in a gone-concern scenario or upon the intervention of resolution authorities, we do not include them in the TCE, but rather in the Advanced LGF analysis.

Exhibit 7

Low-trigger Tier 1 issuance supports adequate capitalisation ...

The Verbund's phased-in capital ratios



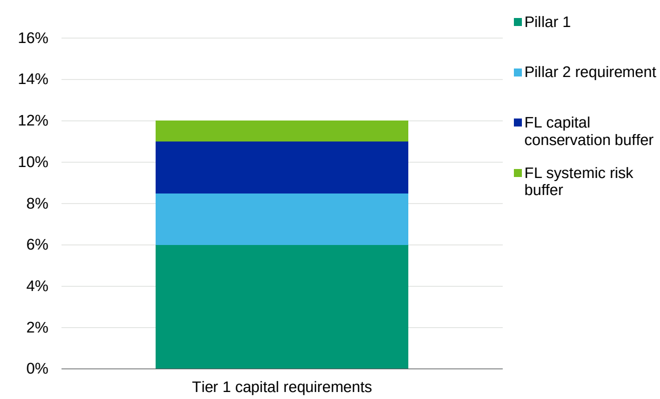
Moody's TCE is a balance-sheet equity measure without regulatory deductions. It includes high-trigger, but not low-trigger, hybrid securities.

Sources: Moody's Financial Metrics™ and company reports

Exhibit 8

... and provides an additional buffer over regulatory capital requirements

H1 2020 Tier 1 SREP requirements and guidance



Pillar 1 requirements include a 4.5% CET1 requirement and a 1.5% Tier 1 add-on. Currently, the combined 6% Tier 1 Pillar 1 requirement can be fully met by CET1 capital.

Sources: Moody's Investors Service and company report

While no direct links to immigon exist anymore, the Verbund is obliged to repay the remainder of the original €300 million of participation rights (Genussrechte) as of year-end 2023, which were granted to the Government of Austria (Aa1 stable) as a compensation for rescuing the former central bank organisation, VBAG. As of 30 June 2020, the Verbund had repaid a cumulative amount of €76 million, with the next threshold to be passed being €200 million as of year-end 2021.

We expect the Verbund's future capitalisation to partly benefit from the participation of individual Volksbanken, which, through Volksbanken Holding eGen, hold 43.2% of immigon's subscribed capital, in immigon's liquidation proceeds. immigon's resolution as a bank concluded in H1 2019, and the entity is now in liquidation. Following a moderate €8.9 million profit in the incomplete business year 2019, immigon's €1.1 billion total asset liquidation balance sheet as of 31 December 2019 consisted almost fully of cash assets (€0.8 billion), while its wind-down equity was €723 million.

Sectorwide profitability is challenged by low interest rates and cost of risk

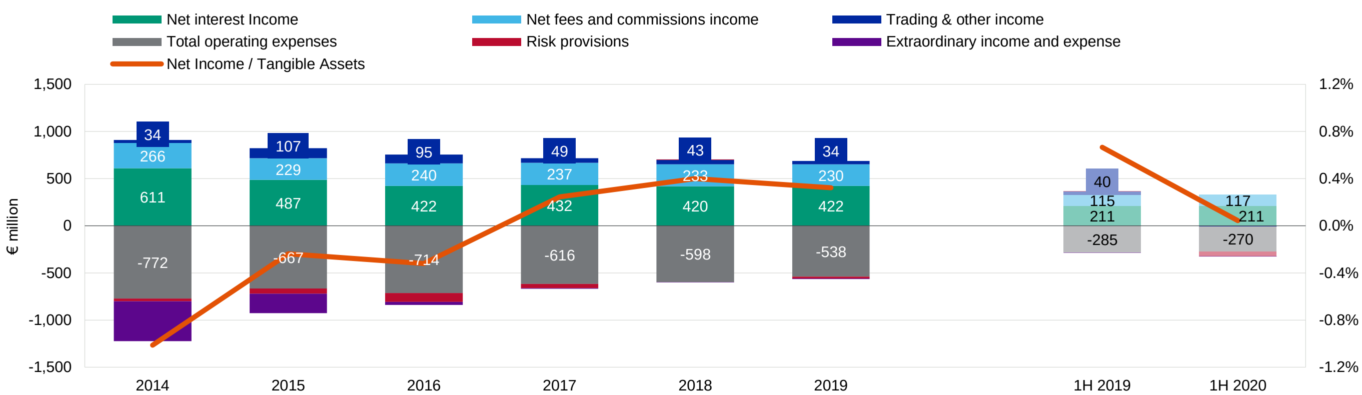
Our assigned Profitability score for VBW is b2, in line with our expectation of moderate profitability over the next few years, which reflects both the group's improving operating efficiency and our expectation of increasing loan-loss provisions in a weakening operating environment.

The Verbund's profitability will continue to face the challenge of low interest rates, which will be more difficult to offset through loan growth as a result of reduced business opportunities in traditional mortgage and corporate lending products. The Verbund continues to benefit from efficiency gains derived from its cost-reduction initiatives, which helped the group lower its cost-to-income ratio to around 80% in 2019 and in the first half of 2020, somewhat below the 85% level in the prior two years.

In H1 2020, the Verbund reported a significantly lower pretax profit of €35.7 million, versus a pretax profit of €128.9 million in H1 2019. Its 2019 results benefitted from a €44 million one-off gain from the sale of Volksbank Liechtenstein by the Verbund member Volksbank Vorarlberg. Taking out a €32 million one-off gain from a property sale in H1 2020, the bank's pre-provision result was almost fully absorbed by increased loan-loss provisions of €49 million (H1 2019: €4 million reversal). This represents an annualised cost of risk of 45 basis points of gross customer loans, which broadly matches our expectations of cost of risk for full-year 2020 in Austria.

Aside from one-off effects, the lower pre-provision income in H1 2020 than in H1 2019 was mainly because of a negative result from financial investments of -€16 million (H1 2019: €25 million). Nevertheless, the Verbund also managed to realise further operating cost savings (down by €16 million to €260 million) and slightly increase the net fee income (by €2 million to €117 million) while maintaining broadly stable net interest income of €211 million.

Exhibit 9
Efficiency gains have helped the Verbund absorb higher H1 2020 loan-loss provisions
(Revenue in € millions, LHS; profitability in percentage, RHS)



Half-year profitability ratios are shown on an annualised basis.
Sources: Moody's Financial Metrics™ and company reports

ESG considerations

In line with our general view on the banking sector, VBW has a low exposure to environmental risks (see our environmental risk heat map[2] for further information).

For social risks, we also place VBW in line with our general view on the banking sector, which indicates a moderate exposure. This includes considerations in relation to the pandemic, given the substantial implications for public health and safety, and the deteriorating global economic outlook, which has created a severe and extensive credit shock across many sectors, regions and markets. For further information see our social risk heat map[3]).

Governance[4] is highly relevant for VBW, as it is to all banks, and we do not have any particular governance concern for this bank. We believe the strategic discussions about the Verbund's structure have been resolved and have rather resulted in a greater degree of alignment within the group. Nonetheless, corporate governance and, specifically, a joint focus on the cohesion among Verbund banks, remain key credit considerations and require ongoing monitoring.

Support and structural considerations

Loss Given Failure (LGF) analysis

The Volksbanken-Verbund represents a conglomerate of eight regional Volksbanken and one specialised financial institution in Austria. The Verbund is considered a banking group in the context of the European Capital Requirements Regulation and, therefore, is regulated as a group. Therefore, all of its affiliated institutions are exempt from certain regulations for banks or other financial institutions, with the exception of the central institution, VBW. As a result, the European Union's (EU) Bank Recovery and Resolution Directive, which we consider an operational resolution regime (ORR), does apply to the Verbund, but not to its member entities individually.

We apply VBW's LGF analysis on the basis of the Verbund's consolidated liabilities, considering the risks faced by the different debt and deposit classes across the liability structure at failure. We assume a residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits. These are in line with our standard assumptions. Because of the Verbund's clear focus on retail banking, we expect only a small percentage (10%) of VBW's deposit base to be considered junior (or institutional) deposits.

For VBW's deposits, our LGF analysis indicates a low loss-given-failure, leading to a one-notch uplift above the bank's baa2 Adjusted BCA.

For VBW's junior senior unsecured and subordinated debt, our LGF analysis indicates a high loss-given-failure, leading us to position the rating one notch below the bank's baa2 Adjusted BCA.

Additional notching for AT1 instruments

We assign a Ba2(hyb) rating to VBW's AT1 note. This rating is positioned three notches below the bank's baa2 Adjusted BCA. The rating reflects our assessment of the instruments' undated deeply subordinated claim in liquidation, the issuer's ability to redeem under certain conditions the securities at a level below par in case these have been affected by a write-down and the securities' non-cumulative coupon deferral features. The securities' principal is subject to a partial or full write-down on a contractual basis if the Verbund's or VBW's CET1 ratios fall below 5.125%, the issuer receives public support, or the Austrian Financial Market Authority determines that the conditions for a full write-down of the instrument are fulfilled and orders such a write-down as a precautionary measure to prevent insolvency.

Government support considerations

In contrast to banks in other EU countries and reflective of government measures implemented in Austria since 2014, we assign a low level of support for the senior unsecured debt and deposit ratings of Austrian banks. As a result, we do not include any beneficial rating impact for government support in VBW's long-term deposit ratings. This view also takes into account the Volksbanken-Verbund's relatively low importance to the domestic deposit-taking market.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

VBW's CRRs are positioned at A2/P-1

The CRRs are positioned three notches above the Adjusted BCA of baa2, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

VBW's CRRs do not benefit from any rating uplift based on government support, which is in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment

The CR Assessment is an opinion of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

VBW's CR Assessment is positioned at A2(cr)/P-1(cr)

The CR Assessment assigned to VBW is positioned three notches above the bank's Adjusted BCA of baa2, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments.

CR Assessments for banks are subject to a going-concern ORR, reflecting the loss absorption that capital and more junior debt instruments provide in the bank's liability structure. In Austria, counterparty obligations rank above senior unsecured debt and junior deposits, but not above preferred deposits.

Methodology and scorecard

Methodology

The principal methodology used in rating VBW was our Banks Methodology, published in November 2019.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 10

Oesterreichischer Volksbanken-Verbund

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	3.0%	a3	↔	baa2	Sector concentration	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	14.2%	a1	↓↓	baa1	Capital retention	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	0.0%	b3	↔	b2	Return on assets	Expected trend
Combined Solvency Score		baa1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	8.6%	a1	↔	a1	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	14.1%	ba1	↔	baa2	Quality of liquid assets	Expected trend
Combined Liquidity Score		baa1		a3		
Financial Profile				baa2		
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				baa1 - baa3		
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	5,756	19.9%	6,945	24.1%
Deposits	21,423	74.2%	19,923	69.0%
Preferred deposits	19,281	66.8%	18,317	63.4%
Junior deposits	2,142	7.4%	1,607	5.6%
Senior unsecured bank debt	18	0.1%	18	0.1%
Junior senior unsecured bank debt			500	1.7%
Dated subordinated bank debt	501	1.7%	400	1.4%
Junior subordinated bank debt	89	0.3%	0	0.0%
Preference shares (bank)	220	0.8%	220	0.8%
Equity	866	3.0%	866	3.0%
Total Tangible Banking Assets	28,874	100.0%	28,874	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	12.5%	12.5%	12.5%	12.5%	3	3	3	3	0	a2
Counterparty Risk Assessment	12.5%	12.5%	12.5%	12.5%	3	3	3	3	0	a2 (cr)
Deposits	12.5%	6.9%	12.5%	6.9%	1	1	1	1	0	baa1
Junior senior unsecured bank debt	6.9%	5.1%	6.9%	5.1%	-1	-1	-1	-1	0	baa3
Dated subordinated bank debt	5.1%	3.8%	5.1%	3.8%	-1	-1	-1	-1	0	baa3
Non-cumulative bank preference shares	3.8%	3.0%	3.8%	3.0%	-1	-1	-1	-1	-2	ba2

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	1	0	baa1	0	Baa1	Baa1
Junior senior unsecured bank debt	-1	0	baa3	0	Baa3	
Dated subordinated bank debt	-1	0	baa3	0	Baa3	
Non-cumulative bank preference shares	-1	-2	ba2	0	Ba2 (hyb)	

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

Ratings

Exhibit 11

Category	Moody's Rating
VOLKSBANK WIEN AG	
Outlook	Stable
Counterparty Risk Rating -Dom Curr	A2/P-1
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Junior Senior Unsecured -Dom Curr	Baa3
Subordinate -Dom Curr	Baa3
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)

Source: Moody's Investors Service

Endnotes

1 These comprise bonds, cash, ECB credit claims and covered bond issuance leeway.

2 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages, and natural and human-made hazards (physical risks). Additionally, regulatory or policy risks such as the impact of carbon regulations or other regulatory restrictions, including the related transition risks such as policy, legal, technology and market shifts, which could impair the evaluation of assets, are important factors. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

3 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and social trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, which increase information technology costs; ageing population concerns in several countries, which affect the demand for financial services; or socially driven policy agendas, which translate into regulations that affect banks' revenue bases.

4 Corporate governance is a well-established key driver for banks, and the related risks are typically included in our evaluation of banks' financial profiles. Further factors such as specific corporate behaviour, key-person risk, insider and related-party risk, strategy and management risk factors, and dividend policy may be captured in individual adjustments to the BCA, if deemed applicable. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates because of poor governance, such as a breakdown in controls resulting in financial misconduct, it can take a long time to recover. Governance risks are also largely internal rather than externally driven.

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