MOODY'S
INVESTORS SERVICE

CREDIT OPINION
26 July 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	Positive

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 rating action and methodology revision

Summary

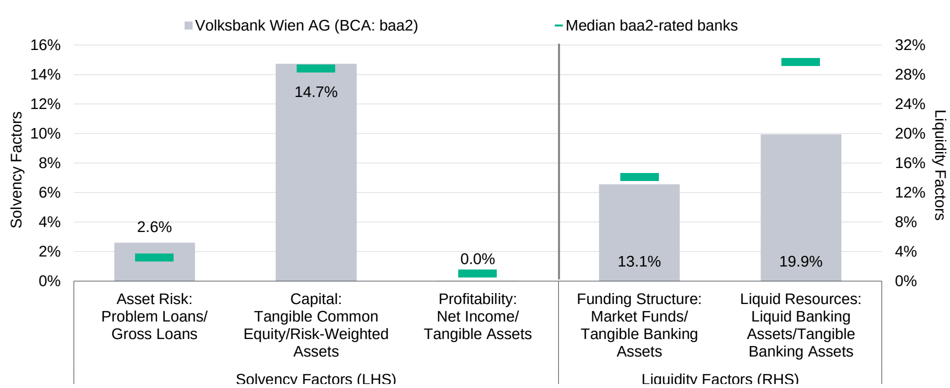
On 13 July, we upgraded Volksbank Wien AG's (VBW) junior senior unsecured debt rating to Baa2 from Baa3. At the same time, we affirmed VBW's deposit ratings at Baa1 and changed the outlook on these to positive from stable. We also assign a Baseline Credit Assessment (BCA) and Adjusted BCA of baa2, an A2/P-1 Counterparty Risk Rating (CRR), an A2(cr)/P-1(cr) Counterparty Risk (CR) Assessment to the bank and a Ba2(hyb) rating to VBW's 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 (Aa1 stable) cooperative banking sector, the Volksbanken-Verbund (Verbund), which operates a statutory mutualist support framework that ensures the cohesion of its member banks. VBW serves as the central organisation for this framework.

VBW's baa2 BCA reflects our expectation that the improvement in the bank's solvency over the past few 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 high exposure to businesses that have been significantly strained by the coronavirus pandemic. VBW's profitability benefits from an improving cost structure because of an efficiency programme 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 Investors Service

Credit strengths

» Very sound funding profile and liquidity, 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 likely to increase in the Verbund's small businesses portfolio

» Concentration in the real estate sector

» 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.

Factors that could lead to an upgrade

VBW's ratings could be upgraded if there is significant improvement in the bank's standalone intrinsic strength with higher capital buffers than we currently expect following the targeted full repayment of participation right of the Government of Austria, and an improvement in the underlying profitability without a significant decline in asset quality.

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

Factors that could lead to a downgrade

VBW's ratings could be downgraded if there is a deterioration in the bank's fundamental credit profile, for instance, if we observe a significant weakening in capital metrics, in particular, if VBW experiences a substantial increase in problem loans and higher through-the-cycle losses, or a significant weakening of VBW's capitalisation 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]

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	14.3	12.7	11.5	10.6	10.0	9.3[4]
Total Assets (USD Billion)	17.5	14.3	13.2	12.7	10.5	13.5[4]
Tangible Common Equity (EUR Billion)	0.7	0.8	0.7	0.5	0.4	10.8[4]
Tangible Common Equity (USD Billion)	0.8	0.9	0.8	0.6	0.5	15.0[4]
Problem Loans / Gross Loans (%)	2.4	2.8	2.4	3.5	3.6	2.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.6	19.2	17.0	14.6	13.3	16.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.6	18.1	17.3	29.7	31.1	22.8[5]
Net Interest Margin (%)	0.9	1.0	1.2	1.2	1.0	1.1[5]
PPI / Average RWA (%)	1.4	1.5	1.6	0.7	0.7	1.2[6]
Net Income / Tangible Assets (%)	0.1	0.3	0.6	0.4	0.3	0.3[5]
Cost / Income Ratio (%)	80.7	78.2	79.5	90.5	92.4	84.3[5]
Market Funds / Tangible Banking Assets (%)	38.0	31.5	32.7	32.5	42.9	35.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	42.8	35.5	33.9	47.7	49.5	41.9[5]
Gross Loans / Due to Customers (%)	82.1	85.8	85.4	83.1	92.7	85.8[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

Exhibit 3

Oesterreichischer Volksbanken-Verbund (Consolidated Financials) [1]

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	29.3	27.4	26.6	25.3	24.5	4.6[4]
Total Assets (USD Billion)	35.9	30.8	30.4	30.4	25.8	8.6[4]
Tangible Common Equity (EUR Billion)	2.1	2.1	1.9	1.8	1.7	5.6[4]
Tangible Common Equity (USD Billion)	2.5	2.3	2.2	2.1	1.8	9.5[4]
Problem Loans / Gross Loans (%)	2.1	2.6	3.1	4.2	4.3	3.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.7	13.9	12.9	13.2	12.6	13.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.6	22.9	29.0	39.7	40.4	30.1[5]
Net Interest Margin (%)	1.5	1.6	1.7	1.8	1.6	1.6[5]
PPI / Average RWA (%)	1.1	1.0	0.7	0.8	0.3	0.8[6]
Net Income / Tangible Assets (%)	0.0	0.3	0.4	0.2	-0.3	0.1[5]
Cost / Income Ratio (%)	76.2	78.4	85.9	85.9	94.4	84.2[5]
Market Funds / Tangible Banking Assets (%)	13.1	8.6	5.9	6.1	6.5	8.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	19.9	14.1	14.2	17.5	17.3	16.6[5]
Gross Loans / Due to Customers (%)	95.9	96.9	93.8	94.8	96.8	95.7[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, reflected in a mutual obligation to support each member institution in case of need.

The Verbund consists of nine primary banks, including VBW, and VBW is the central organisation. As of 31 December 2020, VBW had 58 branches and the Verbund had 249 branches. The Verbund had 3,268 full-time employees as of 31 December 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 31 December 2020, the Verbund held consolidated assets of €29.4 billion (4.0% of the aggregated balance sheet size of the Austrian banking industry) and reported a net income of €20.0 million for 2020. In May 2019, immigon portfolioabbau ag (immigon), the wind-down entity of the former central institution of the 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

All G-20 countries 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.

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, and 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. 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 pandemic.

Detailed credit considerations

We assess VBW on the basis of the consolidated financial statements of the Austrian 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, reflected in 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 ECB, 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.

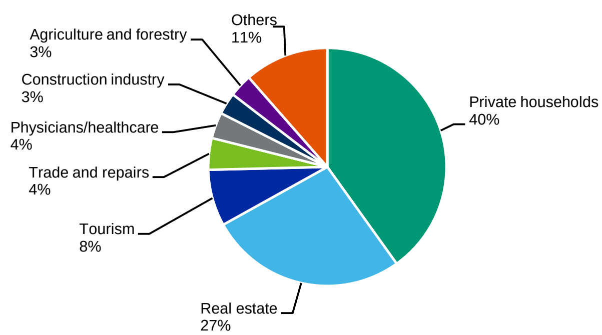
The Verbund's problem loans will increase from the current low level

We assign a baa2 Asset Risk score to VBW, three notches below the initial a2 score. The baa2 score includes a negative adjustment for real estate concentration risks. The adjustment also takes into account our expectation of higher nonperforming loan ratios for VBW and the Verbund's SME exposures, reflecting the gradual reduction of government support measures while the Verbund still reports a 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 smaller companies will struggle to recover from last year's weak economic environment and the recurring shutdowns in Austria. The sector's total loan book of €21.7 billion, as of year-end 2020, was concentrated in banks' SME clients (€10.9 billion). The real estate sector dominated the loan book with a total exposure of €5.8 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. During the coronavirus pandemic, 20.7% of exposures had benefited from such concessions, mainly in the form of payment holidays. In the €16.2 billion commercial customer subsegment, the adoption rate stood at 13.1% as of January 2021, with the percentage of still active concessions now below 50% of exposures that initially benefited from moratoriums and other COVID-19-related measures. Verbund customers that have left a moratorium have so far not shown significantly different performance from the rest of the group's customers. However, customers subject to more extended payment deferrals will find it harder to resume regular payments, and they may be at higher risk of default during and following the period of government support reduction.

The Verbund's €1.7 billion customer receivables from tourism companies as of year-end 2020 are concentrated in family-owned hotels, which have benefited 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 significant share of borrowers from the tourism and related service sectors will remain dependent on public support measures. This is reflected in the reduced, but still high, uptake of COVID-19 concessions for the tourism, recreation and accommodation subsegments within the Verbund's lending portfolio as of the end of January 2021.

Exhibit 4
Breakdown of the Verbund's loan book

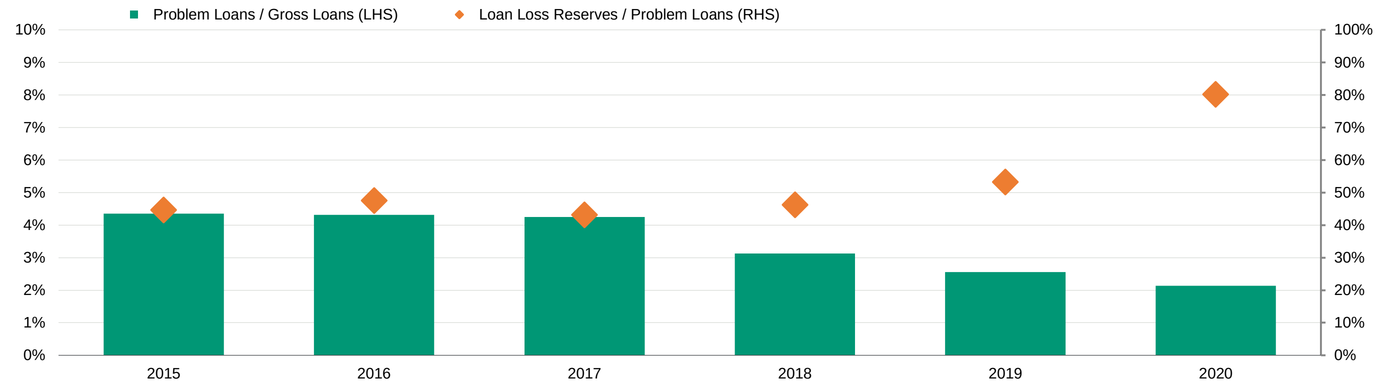


As of year-end 2020.
Source: Company

During 2020, the Verbund booked additional loan-loss reserves, which now cover 80% of problem loans. This is a very good coverage ratio 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 5

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



Source: Company and Moody's Investors Service

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

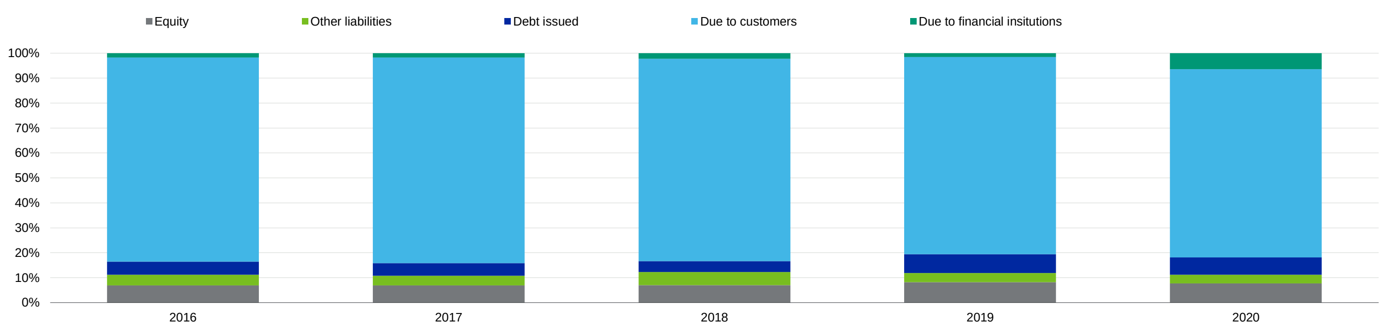
The Verbund's funding profile strongly supports VBW's BCA, which is reflected in our a1 Funding Structure score for the bank. It is one notch below the initial score to reflect the fact that the Verbund sourced a total of €1.5 billion of TLTRO III funds from the ECB in June 2020. This will be gradually 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 maturities over the near term, the group will not need to access funding markets this year. The next big 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 are generally more stable than large institutional deposits. As of 31 December 2020, deposits funded 75% of the Verbund's total assets (79% as of 31 December 2019) and mainly included current account and savings account deposits from retail clients. As of year-end 2020, the gross loan-to-deposit ratio was 93% (105% as of December 2019). 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 increased the role of market funding for the Verbund and VBW.

Exhibit 6

Liability structure of the Verbund as a percentage of total assets



Sources: Company and Moody's Investors Service

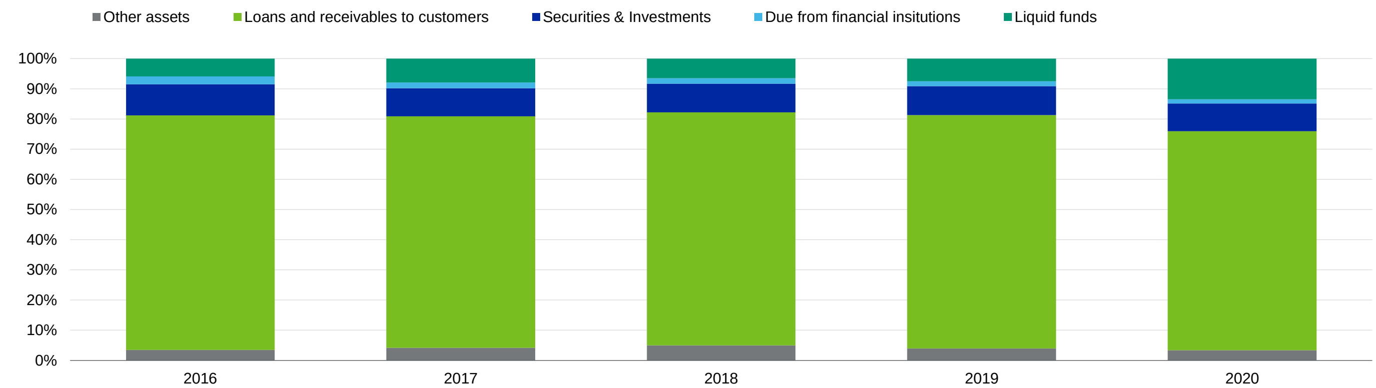
Strong liquidity is well positioned to support VBW's business profile

VBW and the Verbund's liquidity is well positioned to cover short-term liquidity needs. Our assigned Liquid Resources score of baa2 which reflects the stock size and the high quality of the Verbund's financial security portfolio. As of 2020, the bank's liquidity coverage ratio was 206% up from 153% in 2019. There was a similar improvement in the Verbund's liquidity coverage ratio. This effect was largely because of VBW's participation in the TLTRO III programme of June 2020 with €1.5 billion. As of year-end 2020, the Verbund reported a pool of liquid resources of €7.0 billion, which is in line with what the group said it would maintain in 2020 (€7 billion). [1]

In addition to the Verbund's liquid resources, the group possesses ample buffer of mortgage claims that qualify as collateral for Volksbank Wien AG - Mortgage Covered Bonds (Aaa), which could quickly increase the 36% nominal overcollateralisation offered by the €3.5 billion of cover pool assets over the €2.5 billion of covered bond liabilities as of 31 December 2020.

Exhibit 7

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



Sources: Company and Moody's Investors Service

Adequate capitalisation, but limited ability to retain capital

As reflected in our assigned baa1 Capital score, which is adjusted three notches downward from an a1 initial score, VBW and the Verbund's capital ratios are adequate for their risk profiles. This supports 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.

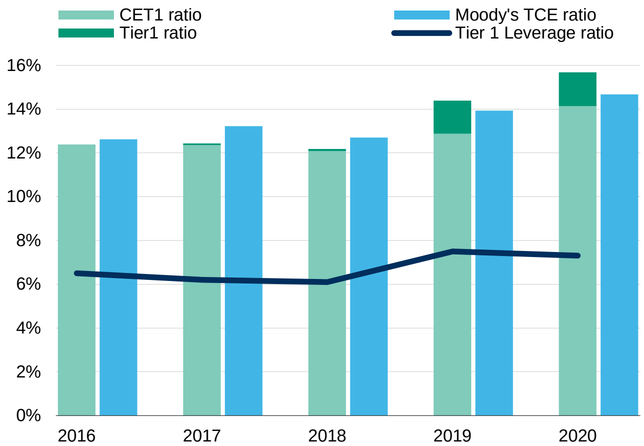
The Verbund's adequate tangible common equity (TCE) ratio of 14.7% as of December 2020 was 0.6 percentage point above the regulatory Common Equity Tier 1 (CET1) capital ratio of 14.1% (year-end 2019: 12.9%) because of the regulatory deductions applied to the Verbund's participations. In absolute terms, the CET1 capital remained almost unchanged at €2.0 billion. At the same time, the Verbund benefited from a decrease in risk-weighted assets to €14.2 billion as of year-end 2020 from €14.8 billion in 2019. 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. The Verbund calculates this conservatively 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 15.7% transitional Tier 1 capital ratio as of 31 December 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 calculation, but include them in the Advanced LGF analysis.

Exhibit 8

SME supporting factor has supported VBW's capitalisation

The Verbund's phased-in capital ratios

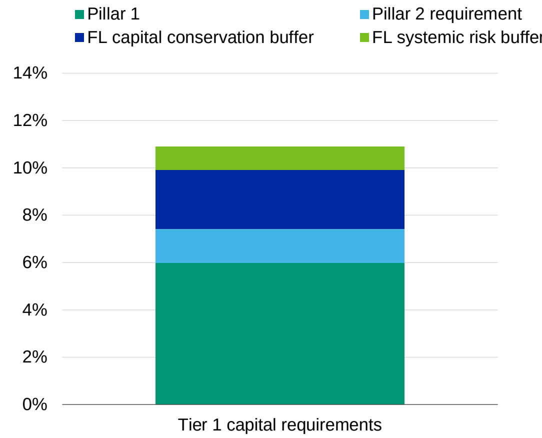


Moody's TCE is a balance-sheet equity measure without regulatory deductions. It includes high-trigger, but not low-trigger, hybrid securities.
Sources: Company and Moody's Investors Service

Exhibit 9

VBW has adequate capital buffers over regulatory capital requirements

Tier 1 SREP requirements (2020)



Pillar 1 requirements include a 4.5% CET1 requirement and a 1.5% Tier 1 add-on.
Sources: Company and Moody's Investors Service

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 as a compensation for rescuing the former central bank organisation, VBAG. As of 31 December 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 strained 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. This 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 be strained by low interest rates, which has been be more difficult to offset through loan growth within an uncertain economic environment. 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 76% in 2020, somewhat below the 85% reported in the previous two years.

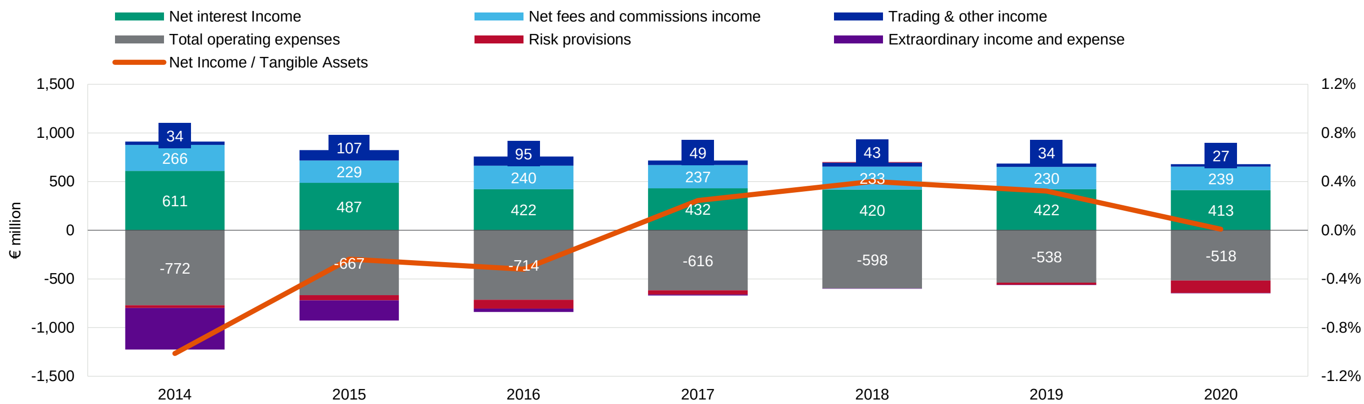
In 2020, the Verbund reported a significantly lower pretax profit of €56.8 million, compared with a pretax profit of €179.5 million in 2019. Its 2019 results benefited from a €44 million one-off gain from the sale of Volksbank Liechtenstein by the Verbund member Volksbank Vorarlberg. Taking out a €32 million one-off gain from a property sale in 2020, the bank's pre-provision result was almost fully absorbed by increased loan-loss provisions of €126 million (2019: €22 million). This represents cost of risk of 59 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 2020 (compared with the level in 2019) was mainly because of a lower result from financial investments of €6 million (2019: €29 million). Nevertheless, the Verbund also managed to realise further operating cost savings (down by €22 million to €512 million) and slightly increase the net fee income (by €10 million to €239 million). Its net interest income was slightly lower at €413 million.

Exhibit 10

Loan-loss provisions increased in 2020 and pre-provision income benefited from declining operating cost

Revenue in euro millions (LHS) and profitability in percentage terms (RHS)



Half-year profitability ratios are shown on an annualised basis.
Sources: Company and Moody's Investors Service

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 coronavirus pandemic, given the substantial implications for public health and safety and the severe and extensive economic shock the pandemic has caused 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 held a couple of years earlier 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 Verbund represents a conglomerate of eight regional Volksbanken and one specialised financial institution in Austria. The Verbund is 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 EU's Bank Recovery and Resolution Directive, which we consider an operational resolution regime (ORR), applies to the Verbund, but not to its member entities individually.

We apply LGF analysis on the basis of the Verbund's consolidated liabilities, taking into account 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 debt, our LGF analysis indicates a moderate loss given failure. Therefore, the rating is at the level of the bank's baa2 Adjusted BCA.

For VBW's subordinated debt, our LGF analysis indicates a high loss given failure. Therefore, the rating is 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 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 strained 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 reflecting the 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 uplift for government support in VBW's long-term deposit ratings. This view also takes into account the Verbund's relatively low importance to the domestic deposit-taking market.

Counterparty Risk Ratings (CRRs)

VBW's CRRs are A2/P-1

The CRRs are 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

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

The CR Assessment assigned to VBW is 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.

Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology used in rating VBW is our Banks Methodology, published in July 2021.

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 11

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	2.6%	a2	↔	baa2	Sector concentration	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	14.7%	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	13.1%	a2	↔	a1	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	19.9%	baa2	↔	baa2	Quality of liquid assets	Expected trend
Combined Liquidity Score		a3		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	5,525	18.8%	6,607	22.5%
Deposits	22,153	75.4%	20,603	70.2%
Preferred deposits	19,938	67.9%	18,941	64.5%
Junior deposits	2,215	7.5%	1,662	5.7%
Senior unsecured bank debt	12	0.0%	12	0.0%
Junior senior unsecured bank debt			500	1.7%
Dated subordinated bank debt	502	1.7%	502	1.7%
Junior subordinated bank debt	75	0.3%	43	0.1%
Preference shares (bank)	220	0.7%	220	0.7%
Equity	881	3.0%	881	3.0%
Total Tangible Banking Assets	29,368	100.0%	29,368	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	13.0%	13.0%	13.0%	13.0%	3	3	3	3	0	a2
Counterparty Risk Assessment	13.0%	13.0%	13.0%	13.0%	3	3	3	3	0	a2 (cr)
Deposits	13.0%	7.3%	13.0%	7.3%	1	1	1	1	0	baa1
Junior senior unsecured bank debt	7.3%	5.6%	7.3%	5.6%	0	0	0	0	0	baa2
Dated subordinated bank debt	5.6%	3.9%	5.6%	3.9%	-1	-1	-1	-1	0	baa3
Non-cumulative bank preference shares	3.7%	3.0%	3.7%	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	0	0	baa2	0	Baa2	
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 12

Category	Moody's Rating
VOLKSBANK WIEN AG	
Outlook	Positive
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	Baa2
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 effects 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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