MOODY'S INVESTORS SERVICE

CREDIT OPINION
17 January 2024

Update

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RATINGS

HYPO VORARLBERG BANK AG

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

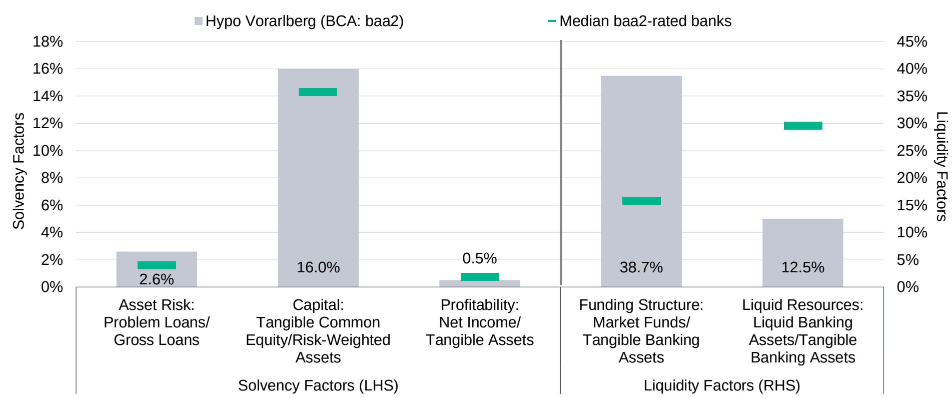
Update to credit analysis

Summary

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

Hypo Vorarlberg's baa2 BCA reflects the bank's sound and resilient credit profile, supported by its regionally-focused activities of retail and corporate banking in the state of Vorarlberg, Austria, as well as adjacent regions of Germany, Italy, and Switzerland. The bank's BCA considers its solid solvency profile, driven by sound risk-weighted capitalisation, strong balance sheet leverage, as well as satisfying asset quality. The bank's BCA is constrained by regional and sector concentrations which render it vulnerable under adverse conditions, while its profitability is moderate. Hypo Vorarlberg's BCA also reflects its relatively weaker liquidity profile, which takes into account its meaningful dependence on confidence-sensitive wholesale funding, which is only partly mitigated by moderate liquid resources.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Solid risk-weighted capitalisation, complemented by strong balance sheet leverage

» Satisfying asset risks considering both asset quality as well as regional and sector concentrations which render Hypo Vorarlberg vulnerable under adverse economic conditions

Credit challenges

» Moderate profitability, including some volatility, which limits Hypo Vorarlberg's ability to retain earnings, providing limited buffer against downside risks

» Hypo Vorarlberg's large dependence on confidence-sensitive wholesale funding is mitigated by moderate liquid resources

Outlook

» The stable outlook balances Hypo Vorarlberg's solid capitalisation, sound asset quality track record and Austria's currently weak economic development as a result of structural challenges, higher interest rates and energy prices, including the country's still high dependence on Russian energy import.

» The stable outlook further reflects our expectation of Hypo Vorarlberg's unchanged liability structure over our 12-18 months outlook horizon.

Factors that could lead to an upgrade

» An upgrade of Hypo Vorarlberg's ratings could result from an upgrade of its baa2 BCA (and Adjusted BCA) and from additional rating uplift as a result of our Advanced LGF analysis.

» Hypo Vorarlberg's baa2 BCA could be upgraded based on a sustained increase in capitalisation, a significant reduction in its reliance on market funding, and a sustainably positive profitability trend.

» Our Advanced LGF analysis could result in an additional notch of rating uplift for the bank's deposit, issuer and senior unsecured debt ratings if Hypo Vorarlberg issues significant volumes of junior senior unsecured debt or subordinated debt instruments or substantial amounts of lower-ranking Additional Tier 1 (AT1) securities.

Factors that could lead to a downgrade

» A downgrade of Hypo Vorarlberg's ratings could be triggered following a lowering of the bank's baa2 BCA (and Adjusted BCA) and from fewer notches of rating uplift from our Advanced LGF analysis.

» A downgrade of Hypo Vorarlberg's baa2 BCA could be triggered by a significant weakening in its capitalization, a longer-term deterioration of its profitability, or heightened reliance on market funding without a commensurate increase in liquid resources.

» Our Advanced LGF analysis would result in fewer notches of rating uplift if Hypo Vorarlberg replaces maturing bail-in-able senior unsecured and subordinated debt instruments with secured debt instruments to a substantial extent.

Key indicators

Exhibit 2
HYPO VORARLBERG BANK AG (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	15.0	14.9	15.3	14.9	13.7	2.8[4]
Total Assets (USD Billion)	16.4	15.9	17.4	18.2	15.3	1.9[4]
Tangible Common Equity (EUR Billion)	1.4	1.4	1.3	1.2	1.2	4.5[4]
Tangible Common Equity (USD Billion)	1.6	1.5	1.5	1.5	1.4	3.7[4]
Problem Loans / Gross Loans (%)	2.5	2.6	2.7	2.7	2.7	2.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.0	16.2	15.3	14.3	14.6	15.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	16.7	17.5	18.9	19.0	18.6	18.2[5]
Net Interest Margin (%)	1.6	1.1	1.3	1.2	1.3	1.3[5]
PPI / Average RWA (%)	1.2	1.7	1.3	1.1	1.4	1.3[6]
Net Income / Tangible Assets (%)	0.5	0.8	0.4	0.3	0.5	0.5[5]
Cost / Income Ratio (%)	61.6	52.6	57.8	58.1	52.9	56.6[5]
Market Funds / Tangible Banking Assets (%)	39.9	38.7	45.2	44.3	38.7	41.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	11.1	12.5	17.6	14.4	8.8	12.9[5]
Gross Loans / Due to Customers (%)	209.6	188.6	191.8	183.1	184.3	191.5[5]

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

Profile

As a universal bank, Hypo Vorarlberg operates a regional business model with a strong focus on the State of Vorarlberg, Austria, and adjacent regions of Germany, Italy, and Switzerland.[1] The bank offers a broad range of retail and corporate banking services, including investment products and advice, and also serves institutional customers, real estate investors as well as public sector entities and financial institutions

As of 31 December 2022, Hypo Vorarlberg operated domestically through a network of 19 branches. In addition, the Bregenz-based bank also operates a branch in nearby St. Gallen, Switzerland, and several subsidiaries in Italy. At the end of June 2023, Hypo Vorarlberg reported total assets of €15.4 billion and employs around 730 staff. The bank's major shareholder is the State of Vorarlberg, which holds 76.9% of its share capital. The remaining shares are held by Landesbank Baden-Wuerttemberg (LBBW, Aa3 stable, baa2)[2] with a 15.4% share and Landeskreditbank Baden-Wuerttemberg Foerderbank (L-Bank, Aaa stable)[3] with a 7.7% share.

Weighted Macro Profile of Strong (+)

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

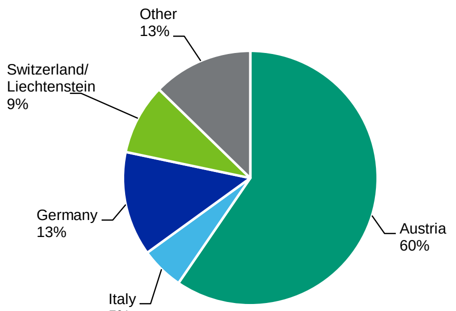
Detailed credit considerations

Satisfying asset quality, reflecting exposures to Italian clients commercial real estate

Hypo Vorarlberg's assigned Asset Risk score is baa2, three notches below its initial score. Our downward adjustment reflects regional and sectoral concentrations risks, arising from its Italian lending activities and exposure to commercial real estate (CRE), as well as tail risks from its Swiss franc-denominated loans. Further, Hypo Vorarlberg's small-size banking franchise exhibits geographic concentration risk which mainly arise from corporate lending in its home regions Vorarlberg, and adjacent German, Italian and Swiss regions.

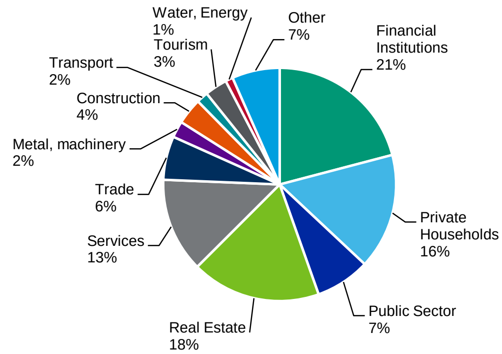
Hypo Vorarlberg faces elevated credit risks arising from asset concentrations to corporate lending exposure (2022: €6.7 billion, equivalent to 473% of Tangible Common Equity, TCE), CRE exposure (€3.2 billion, 226%), and its Italian activities (€1.0 billion, 69%). Further, being located in western Austria with a border to Switzerland, Hypo Vorarlberg also provided around €1.5 billion Swiss franc-denominated loans at the end of June 2023, accounting for around 14% of the bank's gross loans. We believe that Hypo Vorarlberg faces some tail risks of creditors not being able to service their loans following the sharp appreciation of the Swiss franc against the euro in recent years. These risks, however, are somewhat mitigated because around 70% of the total CHF loans relate to Swiss customers of the bank's St. Gallen branch and because Hypo Vorarlberg refinances Swiss franc loans with issuances in the same currency.

Exhibit 3
Hypo Vorarlberg's gross credit exposure by country ...
Data as of end-2022, total = €17.8 billion



Source: Company reports, Moody's Investors Service

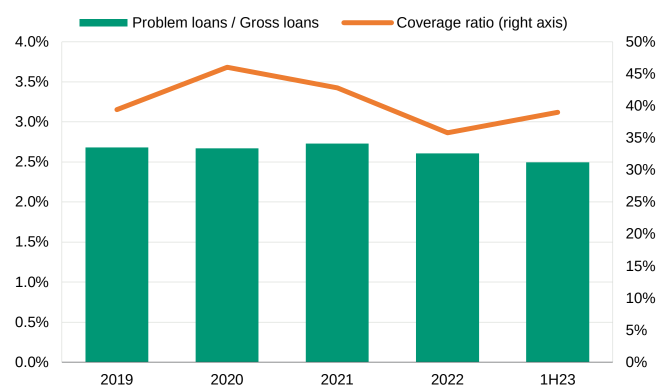
Exhibit 4
... is geared to corporates (38% of the total) and real estate (18%) customers
Data as of end-2022, total = €17.8 billion



Source: Company reports, Moody's Investors Service

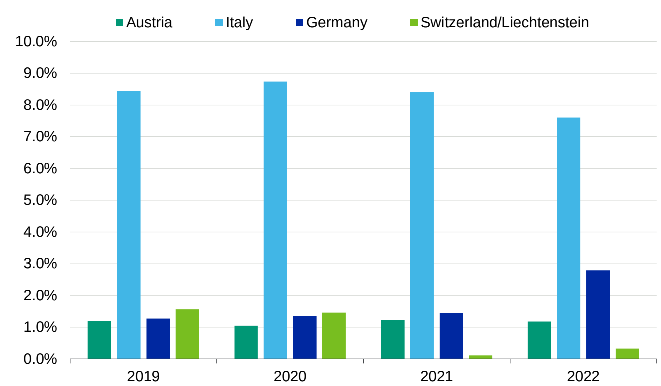
Similar to other Austrian banks, Hypo Vorarlberg benefited from benign credit conditions in the years 2015-19, which helped to improve its problem loan to gross loan ratio to 2.7% from 6.1% over that period. In addition, the bank reduced tail risks associated with the - previous - joint and several liability that Hypo Vorarlberg had been sharing in Pfandbriefbank (Oesterreich) AG, as well as the divestment of Heta Asset Resolution AG exposures, which had caused write-downs in the past. Since 2019, Hypo Vorarlberg also has materially reduced market risks arising from the venture capital/private equity fund Hypo EQUITY Unternehmensbeteiligungen AG (HUBAG) by selling several portfolio companies.[4]

Exhibit 5
While Hypo Vorarlberg's NPL ratio is broadly stable since 2019 ...
Data in %



Source: Company reports, Moody's Investors Service

Exhibit 6
... it is higher than domestic peers because of weaker asset quality from its Italian exposures
Data in %, exposure in rating class 5 compared to gross credit exposure



Source: Company reports, Moody's Investors Service

Despite the economic challenges posed by the pandemic and energy crisis, Hypo Vorarlberg's problem loan ratio remained broadly unchanged at around 2.6% during the years 2020-22, and slightly improved to 2.5% of gross loans as of end-June 2023. This trend reflects stable problem loans of around €260 million, of which around two thirds reflect corporate loans, and an accumulate +7.5%

increase of gross loans to €10.3 billion over that period. Hypo Vorarlberg has set aside a combined €101 million of specific and generic loan loss reserves, translating into a coverage ratio[5] of 39% (2022: 36%).

For 2023 and beyond, we expect an increase in Hypo Vorarlbergs's problem loan ratio, reflecting the weakened credit environment due to ongoing geopolitical uncertainties and the bank's exposure to CRE. According to the financial press, Hypo Vorarlberg is among a group of domestic lenders to Austria's SIGNA Group which filed for insolvency and, thus, may face rising problematic loans as well as rising credit provisions.

Hypo Vorarlberg's capitalisation is solid, and further complemented by very strong balance sheet leverage

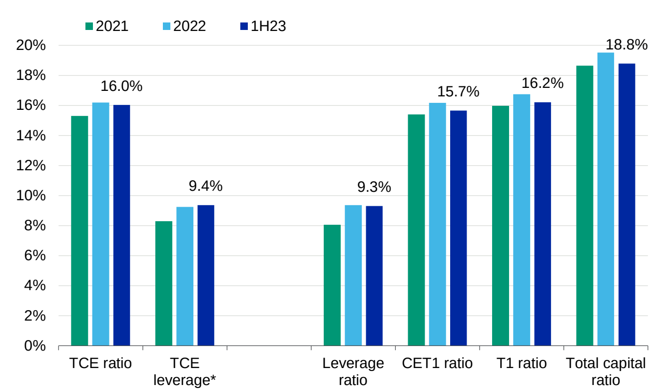
Hypo Vorarlberg's assigned Capital score is a1, two notches below the initial score. The negative adjustment reflects our expectation of a moderate decline of the bank's Tangible Common Equity (TCE) ratio to below 15.0%, reflecting further loan growth and the implementation effects of Basel IV, starting in 2025. Hypo Vorarlberg's capitalisation ranks favorable versus domestic peers and, in combination with strong balance sheet leverage[6], is a key factor that supports its baa2 financial profile.

Our assessment of Hypo Vorarlberg's solid capitalisation is underpinned by a TCE ratio of 16.0% at the end of June 2023, compared with 16.2% in 2022 (Exhibit 7). The moderately lower level reflects 3.2% higher risk-weighted assets (RWA), at €9.0 billion as of end of June 2023 (2022: €8.7 billion), driven by higher credit risk, mainly from corporate lending exposures.

For the period 2018-21, Hypo Vorarlberg's TCE leverage ratio[7] remained broadly unchanged at around 8.4% on average, a strong level, and further improved to 9.4% at the end of June 2023 (2022: 9.2%), reflecting earnings retention. Our ratio is broadly in line with the bank's regulatory[8] Tier 1 leverage ratio of 9.3% at the end of June 2023. Hypo Vorarlberg's strong leverage ratio also reflects that the application of the standardised approach to calculate its credit-related RWA and the fact that around two-thirds of its loans arise from corporate lending exposures that attract higher risk-weights than retail exposures. As a result, the bank's risk-density (RWA to tangible assets) was relatively high at 58% as of end-June 2023, compared with 57% in 2022.

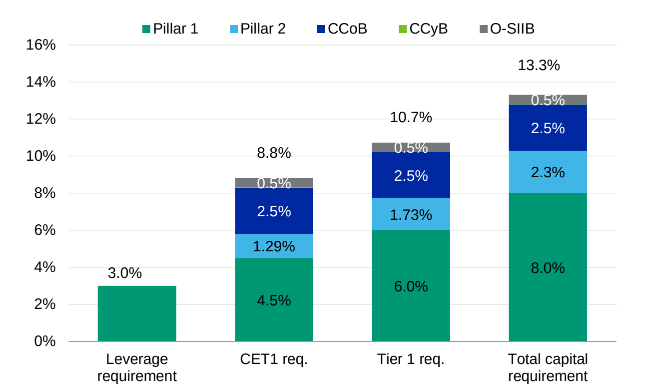
Since 2017, Hypo Vorarlberg has executed two synthetic securitization transactions of combined €661 million SME loans with the European Investment Bank (EIB, Aaa stable)[9] and the European Investment Fund (EIF, Aaa stable)[10], which shields the bank against the credit risks related to the senior and mezzanine or mezzanine-only tranches. We expect that Hypo Vorarlberg will continue to use similar transactions to periodically free up capital.

Exhibit 7
Hypo Vorarlberg has solid capital; Moody's vs regulatory view
Data in %



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

Exhibit 8
Hypo Vorarlberg's regulatory minimum requirements in detail
Data in %



Note: CCoB = Capital Conservation buffer; CCyB =Countercyclical Buffer; O-SIIB = Other Systemically Important Institutions Buffer.
Source: Company reports, Moody's Investors Service

Our view also takes into account of Hypo Vorarlberg's Common Equity Tier 1 (CET1) target of 16.5% by 2028 (excluding Basel IV effects), compared with its reported ratio of 15.7% at the end of June 2023, slightly down from 16.2% in 2022. Other than Germany and Switzerland, Austria has not implemented a Countercyclical Capital Buffer (CCyB) requirement and an additional buffer specific to RWAs from domestic loans backed by residential properties. However, the Bregenz-based bank has to comply with an other systemically important institutions buffer (O-SIIB) requirement of 0.5%[11], as well as a relatively high total Pillar 2 requirement of 2.3%, translating into a Pillar 2 CET1 requirement of 1.29% (Exhibit 8). With excess capital of around 548 basis points (bps) and 685 bps against these requirements levels, we believe the bank has ample financial flexibility to accommodate growth and potential rating migration.

Moderate profitability, including some volatility, which limits Hypo Vorarlberg's ability to retain earnings, providing limited buffer against downside risks

Hypo Vorarlberg's assigned Profitability score is ba2, one notch below the initial score. The negative adjustment reflects our expectation of rising credit provisions, associated with the bank's CRE lending exposures.

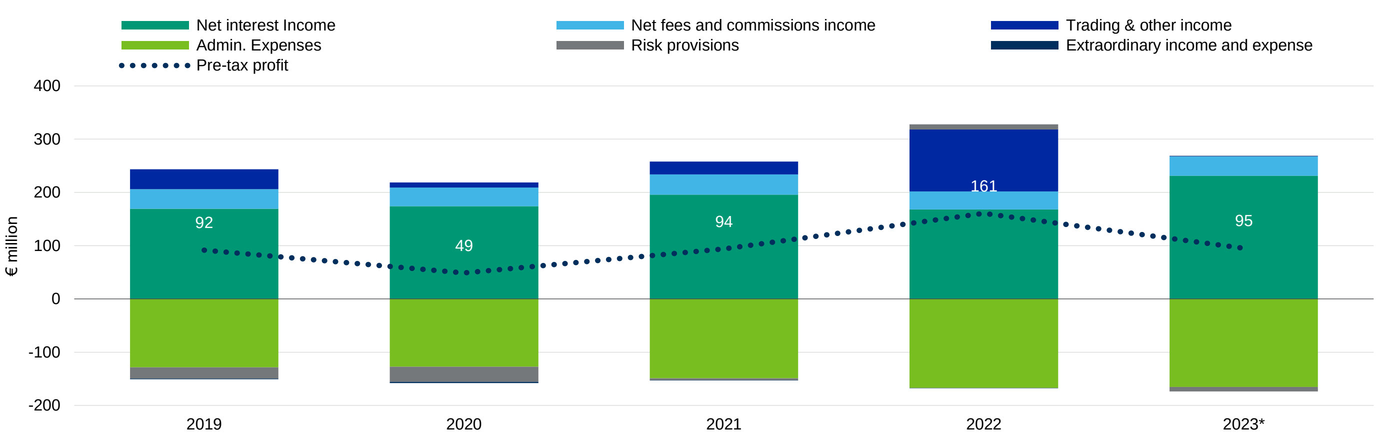
Following very solid annual net income to assets (ROA) of 50-75 bps in the years 2015-17, Hypo Vorarlberg's profitability weakened to 22 bps in 2018, reflecting a loss from selling its stake in HUBAG and 25 bps in 2020, due to high credit costs, equivalent to 43 bps of gross loans, following the breakout of the pandemic. In 2021, the bank's ROA improved to 43 bps, mainly driven by a €41 million positive impact on net interest income (NII) as a result of Hypo Vorarlberg's participation in the ECB's favorable tender program (TLTRO).

For 2022, Hypo Vorarlberg's ROA further improved to 78 bps (1H23: 47 bps annualized), driven by positive and negative items. The bank's NII declined by around 14% to €168 million, compared with €196 million in 2021, following the partial repayment of TLTRO funds to €1.1 billion from €2.8 billion over that period. This decline was offset by a positive €57 million fair value on derivatives (2021: negative fair value of €9 million) and the release of a provision for operational risks of around €26 million. The bank's total operating expenses[12] increased to €167 million, up from €149 million in 2021, resulting in a pre-provision income of €151 million (2021: €109 million), which compares very favorable to Hypo Vorarlberg's five-year average of around €100 million for the period 2015-20. In the same year, Hypo Vorarlberg also benefited from a €10 million reversal of credit provisions, compared with a €15 million expense in 2021, equivalent to 16 bps of gross loans. As a result, Hypo Vorarlberg's pretax profit increased to €161 million (2021: €94 million), and its net income was up to €120 million (2021: 67 million).

Exhibit 9

Hypo Vorarlberg's volatile profitability has been affected by fair value fluctuations on derivatives and write-down of affiliates

Data in € million



*Annualised H1 figures

Source: Company reports, Moody's Investors Service

High reliance on wholesale funding, balanced by duration-matched maturity profile

Hypo Vorarlberg's assigned Funding Structure score is ba2, in line with the initial score. Our assessment captures the market funding increasing effect from the bank's remaining participation in the ECB's Targeted Longer-Term Refinancing Operation (TLTRO III), which we consider temporary.

Following the successful refinancing of the matured liabilities that benefited from a deficiency guarantee by the Land of Vorarlberg in 2017, Hypo Vorarlberg today exhibits a more evenly staggered, duration-matched maturity profile. The bank also started to issue more covered bonds, which accounted for around 28% of its liabilities at the end of June 2023, compared with 18% in 2017. This has helped to improve its Market Funds ratio to around 39% in 2022, while before 2017, it was in the 45%-50% range.

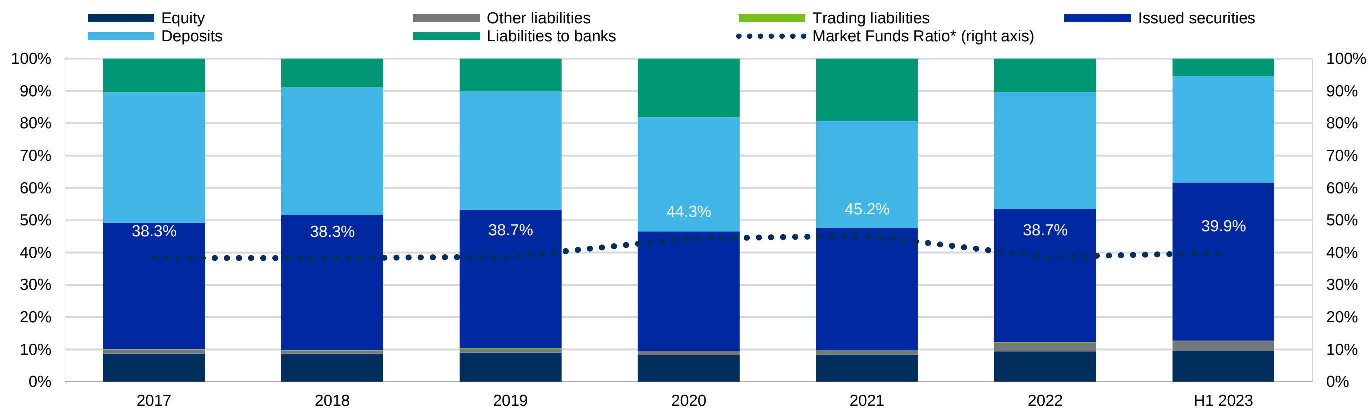
Hypo Vorarlberg's high reliance on wholesale funding reflects its narrow retail banking franchise, which is underpinned by a relatively high gross loan-to-deposit ratio of 210% at the end of June 2023 (2022: 189%). At this time, deposits, mainly from regional retail and SME customers, accounted for €4.9 billion, or 32% of liabilities, down from 34% in 2020 and 39% in 2017. These are rather low ratios when compared to banks with countrywide branch networks. As of 30 June 2023, the bank's market funding consisted of €4.3 billion of covered bonds, €2.1 billion of senior unsecured debt, and €0.8 billion of interbank funding, translating into a Market Funds ratio of 41.4%. The latter component includes Hypo Vorarlberg's remaining €300 million drawings from the ECB's TLTRO program.

Hypo Vorarlberg's Minimum Requirement for own funds and Eligible Liabilities (MREL) was at 22.4% of RWA, or about €2.0 billion as of 30 June 2023. Given the bank's total regulatory capital of €1.7 billion and large stock of outstanding MREL-eligible debt, the bank exhibited a MREL surplus of 27% (in terms of RWA). Hence, the bank will not have to tap the funding markets to fulfil its regulatory requirements any time soon.

Exhibit 10

Hypo Vorarlberg remains reliant on confidence sensitive wholesale funding sources

Liability breakdown in percentage



*Market Funds Ratio = Market Funds / Tangible Banking Assets

Source: Company reports, Moody's Investors Service

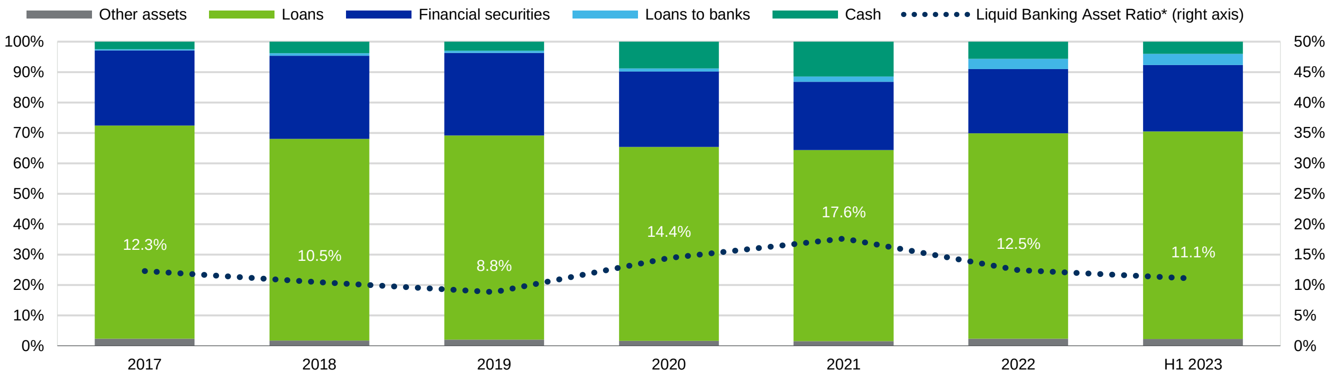
Moderate liquidity, balanced by asset encumbrance

Hypo Vorarlberg's assigned Liquid Resources score is ba1, in line with the initial score. Our assessment considers the bank's encumbered assets and reflects our expectation of moderate declining liquidity due to the repayment of the reduced, but still remaining, TLTRO III funds. Our liquidity assessment also takes into account Hypo Vorarlberg's good access to the Austrian covered bond market, which would allow the generation of some additional liquidity, in case of need, by issuing (retained) covered bonds against its unused over-collateralisation of the cover pools. Overall, we consider the bank's liquid resources to rank relatively low compared with domestic peers.

Following a period of decreasing liquid resources in the years 2014-19, where the bank's Liquid Banking Asset (LBA) ratio halved to around 9% from 18%, reflecting low interest rates and credit spreads at that time, Hypo Vorarlberg's liquidity improved in 2020 and 2021, benefiting from its participation in the ECB's TLTRO program.

Since the end of 2021, the bank's LBA ratio has moderately decreased again because of the partial repayment of TLTRO funds to €1.1 billion at the end of 2022, compared with a peak of €2.8 billion in 2021, and a further reduction to €300 million during 1H23. Our LBA ratio of 11.1% at the end of June 2023 considers Hypo Vorarlberg's €0.6 billion cash, €0.5 billion loans to banks, as well as €0.5 billion of high-quality financial securities (2022: 12.5%).

Exhibit 11
Hypo Vorarlberg's on balance-sheet liquid resources have recovered again
Asset breakdown in percentage



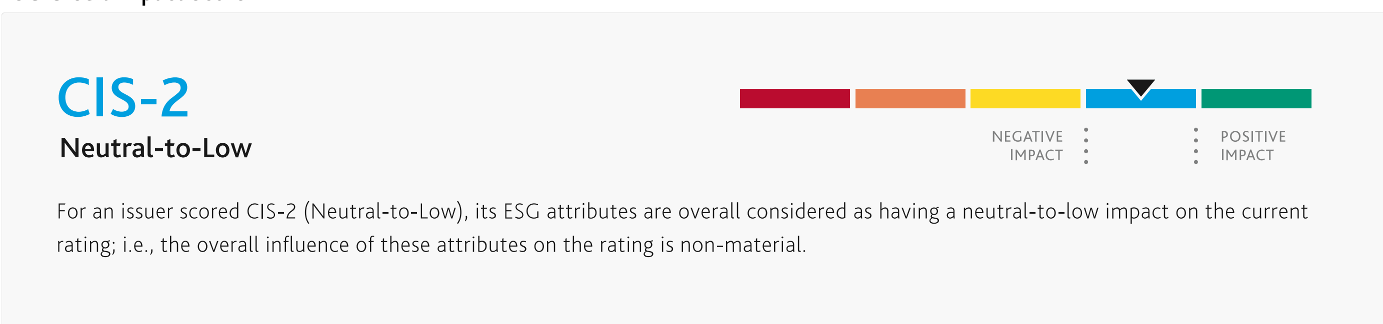
Liquid Banking Assets Ratio = Liquid Assets / Tangible Banking Assets
Source: Company reports, Moody's Investors Service

Hypo Vorarlberg's Liquidity Coverage Ratio (LCR) remained broadly stable at 171% for the first six month of 2023, compared with 168% as of year-end 2022, i.e. levels which are comfortably above the 100% minimum regulatory requirement.

ESG considerations

Hypo Vorarlberg Bank AG's Credit Impact Score is CIS-2

Exhibit 12
ESG Credit Impact Score



Source: Moody's Investors Service

Hypo Vorarlberg's CIS-2 indicates that ESG considerations have no material impact on the current ratings. This reflects the limited credit impact of environmental and social risk factors on the ratings to date, and neutral-to-low governance risks

Exhibit 13
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

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

Social

Hypo Vorarlberg faces high industrywide social risks related to customer relations and associated regulatory risks, litigation exposure and high compliance standards. These risk exposures emerge primarily from its retail as well as its wealth and asset management operations and they are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by technology solutions and organizational measures to prevent data breaches.

Governance

Hypo Vorarlberg faces low governance risks, and its risk management, policies and procedures are in line with industry best practices, and commensurate with its universal banking model. As a public-sector bank, Hypo Vorarlberg is 76.9% owned by the State of Vorarlberg, which is reflected in the composition of its board of directors. Austria's developed institutional framework mitigates associated governance risks.

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

Support and structural considerations

Loss Given Failure analysis

Hypo Vorarlberg is subject to the Austrian Federal Act on the Recovery and Resolution of Banks (Sanierungs- und Abwicklungsgesetz – BaSAG), the transposal law of the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. Therefore, we apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution.

We assume residual TCE of 3%, post-failure losses of 8% of tangible banking assets, a 26% proportion of junior deposits, a 25% runoff of these before failure and a 5% run-off in preferred deposits. These metrics are in line with our standard assumptions.

For Hypo Vorarlberg's A3 deposits and senior unsecured debt ratings, our LGF analysis indicates a very low loss given failure, leading to two notches of uplift from the bank's baa2 Adjusted BCA.

For Hypo Vorarlberg's Baa3 subordinated debt rating, our LGF analysis indicates a high loss-given-failure, leading us to position the rating one notch below its baa2 Adjusted BCA.

Government support

The introduction of the BRRD has demonstrated a reduction in the willingness of EU governments to bail out banks, because it severely restricts the conditions under which authorities can use public money to fund a bank recapitalisation. We expect most failing banks to be resolved without governments providing financial support. This approach to support will be broadly consistent throughout the EU, as the BRRD provides little room for national discretion.

As a result, we consider the State of Vorarlberg's options with regard to government support considerably limited, and Hypo Vorarlberg's ratings do not benefit from government support uplift because of its small size in the context of the Austrian banking system.

Counterparty Risk Ratings (CRRs)

Hypo Vorarlberg's CRR is A2/P-1

The CRR is three notches above the baa2 Adjusted BCA, reflecting the extremely low loss-given-failure from the high volume of instruments, primarily senior unsecured debt and junior deposits, that are subordinated to CRR liabilities in our Advanced LGF analysis.

Counterparty Risk (CR) Assessments

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

The CR Assessment is three notches above the baa2 Adjusted BCA, based on the buffer against default provided by more subordinated instruments, primarily senior unsecured debt and junior deposits, to the senior obligations represented by the CR Assessment.

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 we used in rating Hypo Vorarlberg was Banks Methodology published in July 2021.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment 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 14

HYPO VORARLBERG BANK AG

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	Geographical concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	16.0%	aa2	↓	a1	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	0.5%	ba1	↓	ba2	Return on assets	Expected trend
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	38.7%	ba2	↔	ba2	Extent of market funding reliance	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12.5%	ba1	↔	ba1	Additional liquidity resources	Asset encumbrance
Combined Liquidity Score		ba2		ba2		
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	2,305	15.3%	3,245	21.6%
Deposits	9,213	61.3%	8,273	55.1%
Preferred deposits	6,818	45.4%	6,477	43.1%
Junior deposits	2,395	15.9%	1,797	12.0%
Senior unsecured bank debt	2,765	18.4%	2,765	18.4%
Dated subordinated bank debt	242	1.6%	242	1.6%
Preference shares (bank)	50	0.3%	50	0.3%
Equity	451	3.0%	451	3.0%
Total Tangible Banking Assets	15,027	100.0%	15,027	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	35.3%	35.3%	35.3%	35.3%	3	3	3	3	0	a2
Counterparty Risk Assessment	35.3%	35.3%	35.3%	35.3%	3	3	3	3	0	a2 (cr)
Deposits	35.3%	4.9%	35.3%	23.3%	2	3	2	2	0	a3
Senior unsecured bank debt	35.3%	4.9%	23.3%	4.9%	2	2	2	2	0	a3
Dated subordinated bank debt	4.9%	3.3%	4.9%	3.3%	-1	-1	-1	-1	0	baa3

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

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

Ratings

Exhibit 15

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

Source: Moody's Investors Service

Endnotes

1 Effective 1 October 2017, the bank changed its name from Vorarlberger Landes- und Hypothekenbank AG to Hypo Vorarlberg Bank AG.

2 The ratings shown is LBBW's long-term issuer rating, outlook, and BCA.

3 The rating shown is L-Bank's long-term issuer rating and outlook.

4 In 2018, the bank's stake in HUBAG had caused a material loss of around €31 million.

5 The coverage ratio is a comparison of loan loss reserves with defaulted loans.

6 Leverage compares equity to assets.

7 Our TCE leverage ratio compares Tangible Common Equity to tangible banking assets.

8 The regulatory leverage ratio compares Tier 1 capital to exposure at default.

9 The rating shown reflects EIB's senior unsecured rating and outlook.

10 The rating shown reflects EIF's long-term issuer rating and outlook.

11 As of 29 December 2020, the Austrian banking regulator FMA reduced the systemic risk buffer for Hypo Vorarlberg to 0.5% from 1.0% previously.

12 We include personnel, administrative and other expenses, as well as depreciation and amortization.

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