

Rating Action: Moody's takes rating actions on four Austrian banks following update to Banks Methodology

13 Jul 2021

Frankfurt am Main, July 13, 2021 -- Moody's Investors Service (Moody's) has today taken rating actions on four Austrian banks, including the upgrade of the subordinated debt ratings of one bank and the upgrade of the junior senior unsecured debt rating of two banks. The rating actions were driven by revisions to Moody's Advanced Loss Given Failure (LGF) framework, which is applied to banks operating in jurisdictions with Operational Resolution Regimes, following the publication of Moody's updated Banks Methodology on 9 July 2021.

This methodology is available at this link: https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1269625.

A full list of affected ratings and assessments can be found at the end of this Press Release.

All other Austrian banks were unaffected by today's rating actions and the update of the Banks Methodology.

RATINGS RATIONALE

Today's rating actions on four Austrian banks were driven by revisions to the Advanced LGF framework within Moody's updated Banks Methodology.

In particular, ratings were mostly affected by revised notching guidance thresholds at lower levels of subordination and volume in the liability structure that have been applied to all Austrian banks.

RATINGS RATIONALE FOR INDIVIDUAL BANKS

Addiko Bank AG (Addiko)

Moody's upgraded Addiko's long-term Counterparty Risk Assessment (CR Assessment) to Ba1(cr) from Ba2(cr) and its long-term Counterparty Risk Ratings (CRR) to Ba2 from Ba3.

The rating action reflects the benefit from the increased likelihood that the rating agency now places on failure scenarios where losses are low, which is reflected in more advantageous notching guidance at lower levels of subordination. As such, the upgraded rating and assessment levels better capture the risk characteristics of these counterparty liabilities.

BAWAG P.S.K. AG (BAWAG)

Moody's upgraded the junior senior unsecured debt rating of BAWAG to Baa1 from Baa2.

The one notch upgrade of the junior senior unsecured debt rating reflects the benefit from the increased likelihood that the rating agency now places on failure scenarios where losses are low, which is reflected in more advantageous notching guidance at lower levels of subordination. As such, the upgraded rating level better captures the risk characteristics of the junior senior unsecured debt class following the agency's revised view around the distribution of losses post failure.

Erste Group Bank AG (Erste)

Moody's upgraded Erste's subordinated debt ratings to Baa1 from Baa2.

The one notch upgrade of the subordinated debt rating reflects the benefit from the increased likelihood that the rating agency now places on failure scenarios where losses are low, which is reflected in more advantageous notching guidance at lower levels of subordination. As such, the upgraded rating level better captures the risk characteristics of the subordinated debt class following the agency's revised view around the distribution of losses post failure.

The rating agency believes the outstanding volume of preference shares to remain largely unchanged during the next years and sufficient to absorb some balance sheet growth while still maintaining the required protection under the revised LGF notching guidance.

Volksbank Wien AG (VBW)

Moody's affirmed VBW's long-term bank deposit ratings at Baa1 and changed the outlook to Positive from Stable. Further, the rating agency upgraded the bank's junior senior unsecured debt rating to Baa2 from Baa3.

The one notch upgrade of the junior senior unsecured debt rating reflects the benefit from the increased likelihood that the rating agency now places on failure scenarios where losses are low, which is reflected in more advantageous notching guidance at lower levels of subordination. As such, the upgraded rating level better captures the risk characteristics of the junior senior unsecured debt class following the agency's revised view around the distribution of losses post failure.

The affirmation of VBW's long-term deposit ratings reflects that the results for these under Moody's Advanced LGF analysis have not materially improved based on the current liability structure of Oesterreichischer Volksbanken-Verbund, which forms the basis for VBW's Advanced LGF analysis. The affirmation of the long-term deposit ratings further reflects that all other rating inputs, including the bank's baa2 Baseline Credit Assessment (BCA) and Adjusted BCA, have been unaffected by today's rating action.

OUTLOOK

Moody's changed the outlook on VBW's long-term deposit ratings to Positive from Stable to reflect the rating agency's expectation that issuances of senior unsecured or lower-ranking instruments during 2022 and 2023 in order to comply with regulatory minimum requirements for own funds and eligible liabilities (MREL) may lead to stronger loss absorption capacity and more rating uplift from the rating agency's Advanced LGF analysis for the deposit rating.

All other rating outlooks for the banks affected by today's rating action remain unchanged.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The affected ratings and assessments could be upgraded following an improvement in the standalone creditworthiness of the banks or following an increase in the stock of bail-in-able liabilities.

The affected ratings and assessments could be downgraded following a substantial deterioration in the standalone creditworthiness of the banks or following a reduction in the stock of bail-in-able liabilities.

LIST OF AFFECTED RATINGS

Issuer: Addiko Bank AG

..Upgrades:

....Long-term Counterparty Risk Assessment, upgraded to Ba1(cr) from Ba2(cr)

....Long-term Counterparty Risk Ratings, upgraded to Ba2 from Ba3

Issuer: BAWAG P.S.K. AG

..Upgrade:

....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2

Issuer: Erste Group Bank AG

..Upgrades:

....Senior Subordinated Regular Bond/Debenture, upgraded to Baa1 from Baa2

....Subordinate Regular Bond/Debenture, upgraded to Baa1 from Baa2

....Subordinate Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2

Issuer: Volksbank Wien AG

..Affirmations:

....Long-term Bank Deposits, affirmed Baa1, outlook changed to Positive from Stable

..Upgrade:

....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Baa3

..Outlook Action:

....Outlook changed to Positive from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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