



Rating Action: Moody's places ratings of 11 Austrian banks on review for upgrade, affirms ratings of one bank

21 Jun 2023

Frankfurt am Main, June 20, 2023 – Moody's Investors Service (Moody's) has today placed the deposit, issuer, and senior unsecured ratings of 11 Austrian banks and banking groups – where applicable – on review for upgrade. Those banks and banking groups include: Erste Group Bank AG, the rated member banks of Raiffeisen Bankengruppe Oesterreich, including Raiffeisen Bank International AG and the Raiffeisenlandesbanks, as well as UniCredit Bank Austria AG and BAWAG P.S.K. AG. The review for upgrade also pertains to the banks' respective long-term Counterparty Risk Ratings and Counterparty Risk Assessments. The outlook on the long-term deposit, issuer, and senior unsecured debt ratings – where applicable – was changed to ratings under review.

The review for upgrade reflects a potential change in Moody's assessment of the likelihood of the Government of Austria (Aa1 stable) providing support to banks or banking groups, which Moody's possibly or likely considers to be of systemic relevance. As the Austrian central government opted for exceptional measures related to an ailing institution in 2014 and 2015, thereby also voiding regional government deficiency guarantees, the rating agency has viewed the likelihood of government support to be 'low' for all Austrian banks since 2015, irrespective of their size or importance for the Austrian banking system.

Additionally, Moody's has affirmed Volksbank Wien AG's (VBW) long-term deposit and senior unsecured debt ratings, as well as its Counterparty Risk Rating, based on unchanged low government support assumptions, which result in no rating uplift. The rating agency considers that VBW is not of sufficiently high systemic relevance to warrant higher government support assumptions. The outlooks on VBW's long-term deposit and senior unsecured debt ratings remain unchanged.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL477841 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

These banks' other ratings are unaffected by today's action.

This rating action includes all rated Austrian banks that have been set other systemically important institution (O-SII) capital buffers by the Austrian Financial Market Authority (FMA) [1], as well as all rated member banks of the Austrian Raiffeisen Banking Group, which form an institutional protection scheme and of which the largest three banks are on the list of the FMA. All other Austrian banks rated by Moody's are not affected by today's rating action.

RATINGS RATIONALE

KEY DRIVERS OF THE REVIEW FOR UPGRADE

Moody's opened a review for upgrade on the ratings of senior obligations (these are instrument classes and assessments ranking above junior senior unsecured debt) of select Austrian banks and banking groups, which the rating agency possibly or likely considers to be of systemic relevance. This reflects Moody's consideration to potentially change its government support assumption for the senior obligations of these banks. Currently, this government support assumption is 'low' and provides no rating uplift to any of the rated Austrian banks, irrespective of their systemic relevance.

The rating agency considers changing government support to 'moderate' for Austrian banks that it views to be of

systemic relevance, thereby more closely aligning the support assumption with that of other European Union (EU) banks subject to an operational resolution regime (ORR), where Moody's typically assumes 'moderate' government support for senior obligations of systemically relevant credit institutions.

Such a change in government support assumption could result in one notch of rating uplift in future for the senior obligations of the affected banks and banking groups upon the closure of the ratings review.

FOCUS OF THE RATINGS REVIEW

During the review, Moody's will update its opinion regarding the central government's willingness to provide support measures in case of need to the banks and banking groups in scope of the ratings review. In this context, the rating agency may raise the support likelihood for those institutions it determines to be of sufficiently high systemic relevance to 'moderate' from 'low'.

In 2014 and 2015, respectively, the rating agency reduced its government support assumptions to 'low', irrespective of their systemic importance. This followed the transposition of the EU's Bank Recovery and Resolution Directive (BRRD) in Austria, which went beyond what EU peers included in national frameworks. The wider scope of resolution measures taken in Austria included the bail-in of bad banks, and in the case of Heta Asset Resolution AG (Heta) resulted in haircuts that were not fully reimbursed to holders of guaranteed bonds. The rating agency has subsequently not observed material adverse or controversial decisions affecting the banking industry or bondholders.

KEY DRIVERS FOR THE VBW RATINGS AFFIRMATION

The affirmation of the long-term deposit and senior unsecured debt ratings of VBW reflects Moody's assessment of the low systemic relevance of the entity. While the Austrian regulator has identified VBW as a domestic systemically important institution, the rating agency continues to assign a 'low' government support probability, taking into consideration the limited size and interconnectedness of the group within the Austrian banking system.

OUTLOOK

The outlook on the long-term deposit, issuer, and senior unsecured debt ratings – where applicable – of the affected, systemically relevant banks was changed to ratings under review.

The outlook on VBW's long-term deposit ratings remains stable and the outlook on its senior unsecured debt rating remains positive.

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

As reflected in the review for upgrade on the senior instrument ratings, a change in the government support assumption for these liabilities to 'moderate' from 'low' could exert upwards rating pressure.

Ratings could be confirmed if, other things equal, Moody's were to view the likelihood of government support to the selected institutions to be low, considering among other factors their systemic relevance within the Austrian banking system, their interconnectedness and/or the complexity of their operations.

In addition, ratings could be upgraded following a strengthening of the banks' stand-alone creditworthiness, as expressed by their Baseline Credit Assessments (BCA), but also due to potentially higher ratings uplift from parental or sector support, or a higher rating uplift from Moody's Advanced Loss Given Failure (LGF) analysis.

The banks' ratings could be downgraded following a weakening of their BCAs, but also due to potentially lower ratings uplift from parental or sector support, as well as due to lower rating uplift from Moody's Advanced LGF analysis.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at

<https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL477841 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
- Lead Analyst
- Releasing Office

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 on <https://ratings.moodys.com/rating-definitions>.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moody's.com/documents/PBC_1288235.

The below contact information is provided for information purposes only. For disclosures on the lead rating analyst and the Moody's legal entity that issued the rating, please see the issuer/deal page on <https://ratings.moody's.com> for each of the ratings covered.

REFERENCES/CITATIONS

[1] Notification by Austrian Financial Market Authority (Austria) on Other Systemically Important Institutions (O-SIIs) 22-Nov-2022 (https://www.esrb.europa.eu/pub/pdf/other/Esrb.notification221122_OSII_AT~a1934fbad2.en.pdf)

Please see <https://ratings.moody's.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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