Research Update:

Oberoesterreichische Landesbank AG 'A+/A-1' Ratings Affirmed; Outlook Remains Negative

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PRIMARY CREDIT ANALYST

Gabriel Zwicklhuber
Frankfurt
+ 49(0)6933999169
gabriel.zwicklhuber@spglobal.com

SECONDARY CONTACT

Michal Selbka
Frankfurt
+ 49 693 399 9300
michal.selbka@spglobal.com

Overview

- On Nov. 20, 2020, S&P Global Ratings revised the outlook on the State of Upper Austria to negative from stable and affirmed the 'AA+/A-1+' ratings.
- We continue to regard Oberoesterreichische Landesbank AG (Hypo OÖ) as a government-related entity (GRE) with a high likelihood of receiving timely and sufficient extraordinary government support from its majority owner Upper Austria, and factor this into our view of the bank's creditworthiness.
- We are therefore affirming our 'A+/A-1' ratings on Hypo OÖ.
- The negative outlook reflects the negative outlook on Upper Austria, and our view that the bank's profitability and asset quality will be strained by the economic and credit distress stemming from the COVID-19 pandemic.

Rating Action

On Nov. 24, 2020, S&P Global Ratings affirmed its 'A+/A-1' issuer credit ratings on Oberoesterreichische Landesbank AG (Hypo OÖ). The outlook is negative.

We also affirmed our 'BBB-' issue ratings on Hypo OÖ's subordinated debt.

Rationale

We are affirming our rating on Hypo OÖ after revising our outlook and affirming our 'AA+/A-1+' ratings on its majority owner State of Upper Austria on Nov. 20, 2020. The outlook on Hypo OÖ was already negative following the outlook revision in April on the back of economic and market stress triggered by the COVID-19 pandemic (see "Outlook Revisions On Several Austrian Banks On Deepening COVID-19 Downside Risks," published April 29, 2020, on RatingsDirect).

We revised the outlook on State of Upper Austria to negative due to our expectation that significant revenue losses due to the COVID-19 pandemic and the state's proposed supplementary expenditure program will weigh on budgetary performance and the debt burden. Additionally, more negative macroeconomic developments and a more rigorous execution of the state's spending plans could lead to even weaker results than we currently assume (see "State Of Upper Austria Outlook Revised To Negative On Risks To Budgetary Performance; ' AA+/A-1+' Ratings Affirmed," published on Nov. 20, 2020, on RatingsDirect). The outlook revision on the state adds further downside pressure on our long-term rating on Hypo OÖ.

We continue to view Hypo OÖ as a GRE. Our 'AA+' rating on Upper Austria, the 51% owner of Hypo OÖ, is still materially higher than the bank's 'bbb+' stand-alone credit profile (SACP). We expect that the bank will continue to benefit from a high likelihood of timely and sufficient support from its majority owner in times of stress. This is reflected in the three-notch uplift we incorporate in our 'A+' long-term issuer credit rating on Hypo OÖ.

A downgrade of Upper Austria could indicate a reduced capacity to support Hypo OÖ in times of stress and would trigger a negative rating action on the bank. At the same time, if the state's credit standing weakened, this would not have any direct implications for Hypo OÖ's stand-alone creditworthiness, in our view.

Although Hypo OÖ has notably lower exposure to the market segments most severely affected by the current downturn, namely consumer credit and corporate lending, we expect the negative macroeconomic environment will continue to strain the bank's profitability, whether via higher impairments or lower revenue. For 2020, we expect a very low but positive net income, after a €3 million loss in the first half of the year. In 2021, we expect continued pressure on revenue given the low-for-long interest rate environment. Whether the bank needs to materially top-up its credit provisions will depend on the macroeconomic environment.

We continue to see significant uncertainty surrounding the severity of the impact of COVID-19-related economic stress, as well as material fiscal and monetary support measures, their potential unwinding (including debt moratoria and temporary insolvency exceptions), and their impact on labor markets. Materially increasing unemployment could represent a material risk for Hypo OÖ, particularly if it coincides with a decline in real estate valuations.

Outlook

Our negative outlook on Hypo OÖ reflects the negative outlook on Upper Austria and our view that economic risk for the Austrian banking system could increase over the medium term as a result of the economic slowdown related to the pandemic. We believe this could increase pressure on the group's profitability and asset quality.

Downside scenario

We could lower our ratings within the next 12-24 months if we saw risks to the Austrian banking sector significantly increase, or if we expected our risk-adjusted capital (RAC) ratio for Hypo OÖ to deteriorate toward or below 10% due to, for example, increased credit losses and even lower profitability. Additionally, a downgrade of Upper Austria would trigger a negative rating action on Hypo OÖ. While less likely, a change in Hypo OÖ's role for or link with the state could also lead us to reassess the bank's status as a GRE.

Upside scenario

We could revise the outlook to stable within the next 12-24 months if the outlook on Upper Austria was revised to stable and we saw operating conditions recover, as indicated by stable economic and industry risk trends for the Austrian banking industry. A revision of Hypo OÖ's outlook to stable would also be supported by the bank showing a credible path to improving core profitability in the medium term, ensuring meaningful loss-absorbing buffers and supporting the sustainability of its business model.

Ratings Score Snapshot

Table 1

Oberoesterreichische Landesbank AG Rating Score Snapshot

Issuer Credit Rating	A+/Negative/A-1
SACP	bbb+
Anchor	a-
Business Position	Weak (-2)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and	Average and
Liquidity	Adequate (0)
Support	3
ALAC Support	0
GRE Support	3
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9,

2011

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Oberoesterreichische Landesbank AG, Oct. 6, 2020
- Outlook Revisions On Several Austrian Banks On Deepening COVID-19 Downside Risks, April 29, 2020

Ratings List

Ratings Affirmed

Oberoesterreichische Landesbank AG	
Issuer Credit Rating	A+/Negative/A-1
Subordinated	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.