MOODY'S INVESTORS SERVICE

CREDIT OPINION
25 September 2023

New Issue

Send Your Feedback

RATINGS

V-Bank AG

Domicile	Munich, Germany
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Long Term Deposit	A2
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.

Contacts

Swen Metzler, CFA +49.69.70730.762
VP-Sr Credit Officer
swen.metzler@moodys.com

Alexander Hendricks, CFA +49.69.70730.779
Associate Managing Director
alexander.hendricks@moodys.com

Carola Schuler +49.69.70730.766
MD-Banking
carola.schuler@moodys.com

V-Bank AG

New Issuer

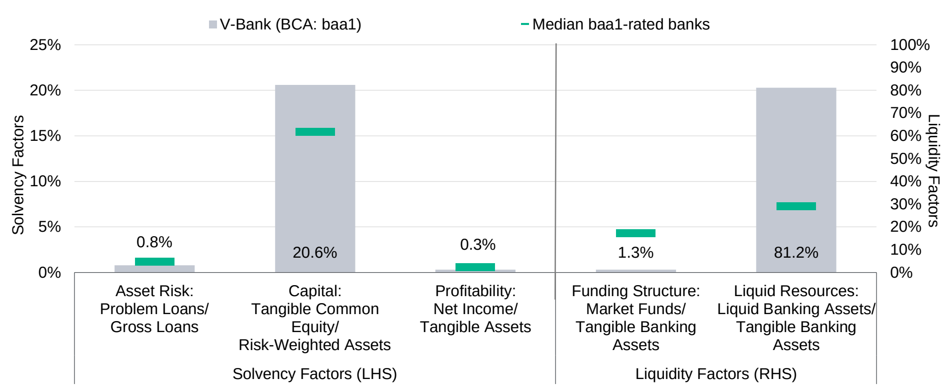
Summary

We assign A2/P-1 deposit and A3/P-2 issuer ratings to V-Bank AG, as well as a baa1 Baseline Credit Assessment (BCA) and Adjusted BCA. V-Bank's deposit and issuer ratings reflect the bank's baa1 BCA and Adjusted BCA; the application of our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss in resolution and results in two notches of rating uplift for the bank's A2 deposit rating. We do not incorporate rating uplift from government support uplift because of its small size in the context of the German banking system.

As a specialist custodian and service provider for wealth managers in Germany, V-Bank operates an efficient and scalable digital banking platform with low credit risks and prudent asset-liability and risk management. The bank's baa1 BCA reflects its customer-driven, deposit-funded balance sheet, sizeable liquidity, and profitable growth over the last decade. V-Bank's BCA is constrained by a very high leverage of roughly 50 times (measured by total assets to common equity), its moderate ability to generate capital through earnings, and concentrated earnings sources which is reflected in a one-notch downward qualitative adjustment for business diversification.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit strengths

» Very low credit risks, mainly related to Lombard lending

» Sizeable liquidity, reflecting high-quality and short-duration financial assets

» Solid funding profile, reflecting sizeable and growing deposits which are part of V-Bank's end-clients long-term investment plans

Credit challenges

» Capital depletion as V-Bank continues to grow, reflecting limited earnings generation capacity, as well as high balance-sheet leverage which may require occasional issuance of Additional Tier 1 (AT1) capital instruments to comply with regulatory (leverage) requirements

» Low profitability which is highly dependent on client activity and the performance of capital markets

» Narrower business model and shorter value chain result in concentrated earnings sources

Rating outlook

» The stable outlook reflects our expectation of broadly unchanged key financials and a stable credit profile of V-Bank over the next 12-18 month.

Factors that could lead to an upgrade

» An upgrade of V-Bank's ratings could be triggered by an upgrade of the bank's BCA and Adjusted BCA, or by an increase in the volume of loss-absorbing liabilities.

» An upgrade of V-Bank's BCA could be prompted by a sustained meaningful improvement of the bank's capitalization and leverage, by achieving improved profitability and earnings retention to fund its growth ambitions, as well as a broadening of its business model which leads to more diversified earnings.

Factors that could lead to a downgrade

» A downgrade of V-Bank's ratings could result from a downgrade of the bank's BCA or from a reduction of the volume of loss-absorbing liabilities, primarily from lower AT1 instruments.

» A downgrade of V-Bank's BCA could follow an unexpected materialisation of operational and litigation risks, or IT security issues that are severe enough to threaten the bank's reputation; an increased reliance on market funding or a material decline of liquid assets, for example because of Lombard lending growth; capital reductions or outflows that lead to a meaningfully lower capitalisation, a material, prolonged erosion of AUC or deposits, as well as end-client or financial advisor attrition, leading to a decline in underlying profitability; or acquisitions or (geographical) business expansions that are unduly aggressive from a commercial, financial or operational risk viewpoint.

Key Indicators

Exhibit 2
V-Bank AG (Unconsolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	4.5	3.0	2.3	1.9	1.9	24.4[4]
Total Assets (USD Billion)	4.8	3.4	2.8	2.2	2.1	22.3[4]
Tangible Common Equity (EUR Billion)	0.1	0.1	0.1	0.0	0.0	29.2[4]
Tangible Common Equity (USD Billion)	0.1	0.1	0.1	0.0	0.0	27.0[4]
Problem Loans / Gross Loans (%)	0.8	0.7	0.6	1.7	0.2	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	20.6	13.8	16.5	18.4	14.0	16.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	2.9	4.2	2.3	5.1	0.8	3.1[5]
Net Interest Margin (%)	0.2	0.2	0.2	0.2	0.2	0.2[5]
PPI / Average RWA (%)	4.0	3.2	3.3	1.9	1.6	2.8[6]
Net Income / Tangible Assets (%)	0.3	0.2	0.3	0.2	0.2	0.2[5]
Cost / Income Ratio (%)	68.7	72.2	73.4	79.6	78.5	74.5[5]
Market Funds / Tangible Banking Assets (%)	1.3	1.7	1.4	0.6	0.6	1.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	81.2	82.1	84.6	91.1	90.4	85.9[5]
Gross Loans / Due to Customers (%)	8.4	12.1	9.2	7.4	6.3	8.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [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

V-Bank is a small German bank based in Munich with €4.5 billion in total assets as of 31 December 2022. V-Bank operates a focused business model of the administration and customer-driven trading of financial assets, and caters to professional financial advisors, family offices, and other semi-institutional clients. With more than €38 billion assets under custody (AUC) at the end of 2022, V-Bank has grown strongly since its foundation in 2008 to a leading independent custodian and financial services provider for professional financial advisors in Germany.

As a depository bank with around 110 employees, V-Bank operates a scaleable digital banking platform and does not provide investment advice. The relationship with the end-client, who is the ultimate owner of managed assets (AUC), is exclusively controlled by V-Bank's professional business partners (B2B4C) who hold majority stakes in the bank, including the family office of Dr. Lutz Helmig (70.5% stake) as well as a small group of professional financial advisors (11.6%). The remaining stakes are hold by Wuestenrot & Wuerttembergische Group (15.3%), and management and employees (2.6%).

WEIGHTED MACRO PROFILE OF STRONG (+)

V-Bank exclusively focuses on the domestic German wealth management market, with balance sheet exposures largely arising from financial investments in European sovereign bonds and covered bonds. As a result, we assign a Strong + Macro Profile to V-Bank, in line with the Macro Profile of Germany.

Detailed credit considerations

V-Bank has low lending risks but is exposed to the typical risks applicable to custodian and wealth managers

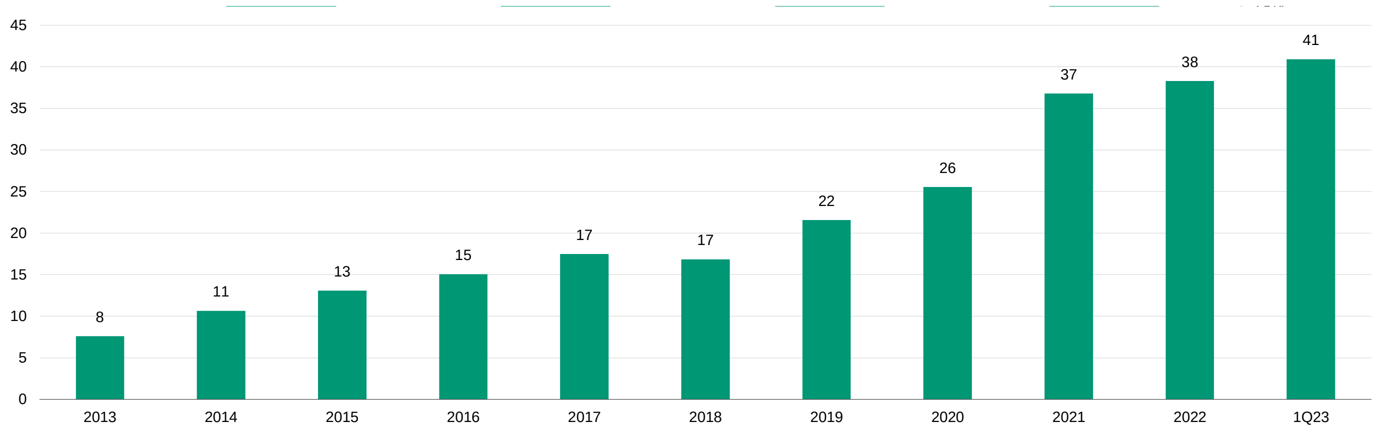
Our assessment of V-Bank's financial profile takes into account its dedicated focus as a custodian bank which benefits from very low on-balance sheet credit and market risks. This view is reflected in our assigned a3 Asset Risk score, four notches below the bank's aa2 initial score, and reflective of non-lending credit risks inherent to the wealth management business models. V-Bank is exposed to a considerable degree of reputational, legal and operational risks that are not covered by our historical problem loan ratio. Changes in our assessment of legacy and future business-model risks will thus be captured in our Asset Risk score. Our downward adjustment also reflects interest rate risks because of the bank's ambition to increase financial security investments as a share of assets, as well as concentration risks related to a small number of professional financial advisors who account for a relative high share of AUC and deposits.

V-Bank successfully expanded its digital platform as a domestic custodian by attracting 458 independent professional investment advisors at the end of 2022, an increase of more than 55% since 2013. The number of managed accounts more than tripled over the same period to around 51,000, triggering an increase of AUC to €38.3 billion in 2022, compared with €7.6 billion in 2013.

Exhibit 3

Organic growth from new business partners were the main driver of V-Bank's rising AUC

Data in € billion

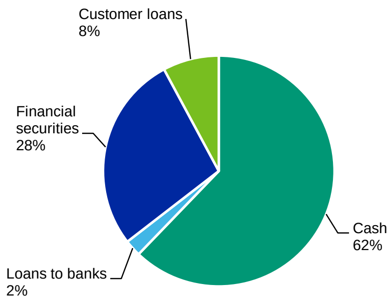


Source: Moody's Financial Metrics, company reports

V-Bank's ability to attract new business clients, including professional financial advisors, family offices, trusts, or institutional customers like corporate-sponsored pension funds or corporate treasury departments will further strengthen its franchise. As a custodian and a neutral business partner for professional financial advisors, V-Bank's success depends on maintaining cost-efficient high-quality financial services, based on a state-of-the art digital infrastructure, while meeting its business- and end-clients needs, including tax reporting or the ability to trade digital assets. In Germany, V-Bank predominately competes with large commercial and private banks, who operate a custodian business in addition to their proprietary asset management, brokerage or private banking. V-Bank's group of professional financial advisors compete with the private banking and wealth management business of large commercial banks, private banks as well as savings and cooperative banks.

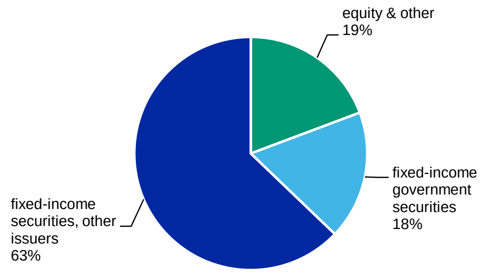
V-Bank's limited direct credit risks arise from €351 million of gross customer loans as of end-2022, comprising around 98% of highly collateralised Lombard loans and the remainder reflecting unsettled fee claims. We expect the volume of impaired loans to continue to fluctuate around historically very low levels, while the cost of credit risk will remain negligible. On balance-sheet market risks at V-Bank remain low and mainly relate to fair value changes of the bank's €999 million own investments (Depot-A, which primarily consist of covered bonds; 2021: €314 million), as well as its €239 million investment portfolio (2021: €56 million). Cash positions increased to €2.8 billion at the end of 2022 from €2.1 billion in 2021 but dropped as a percentage of asset to 62% (2021: 71%), reflecting V-Bank's treasury strategy to increase financial securities and lower cash, in order to benefit from higher interest rates.

Exhibit 4
V-Bank operates with sizeable liquidity ...
Data in % of assets



Source: Moody's Investors Service, company reports

Exhibit 5
... including high-quality, short-duration financial securities
Data in % of financial securities



Source: Moody's Investors Service, company reports

Our Asset Risk assessment for V-Bank includes negative adjustments for moderate concentrations from the bank's largest financial advisors which can result in material unexpected outflows of deposits and AUC, as well as elevated interest rates risks which can challenge the bank's solvency under stressed conditions. Because V-Bank aims to hold financial securities until maturity, it applies accrual accounting. At the end of 2022, the fair value of these assets was around €30 million lower than book value, equivalent to around 29% of equity.

V-Bank's strong growth and limited earnings retention capacity requires occasional fresh capital to meet regulatory requirements and address high balance sheet leverage

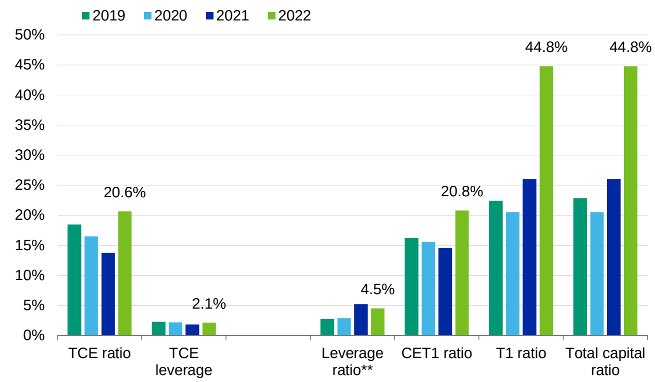
We assign a baa1 Capital score to V-Bank, six notches below the aa1 initial score. Our sizable negative adjustment reflects the bank's limited ability to retain earnings, and our expectation of declining solvency ratios resulting from rising risk-weighted assets (RWA) as V-Bank continues to grow and further shifts assets from cash to financial security investments. Our assessment also balances the bank's strong regulatory capital ratios with the risks to its capital because of a weak absolute level and, therefore, a high leverage in relation to its balance sheet. Our capital assessment for V-Bank also considers the bank's proven access to capital and high share of liquid resources which mitigate the risks to the bank's solvency.

In 2022, V-Bank's equity increased to €106 million from €63 million the year before, reflecting a €32 million capital increase and €8 million retained earnings after dividends. In additions, V-Bank's owners subscribed net €65 million low-trigger Additional Tier 1 capital notes during 2022. The equity capital increase helped to improve the bank's TCE ratio to 20.6%, compared with 13.8% in 2021, balancing higher risk-weighted assets of €457 million, up around 17% from €392 million in 2021, reflecting very strong assets growth of around 50% to €4.5 billion at the end of 2022. During 1Q23, V-Bank's continued asset mix shift triggered a decrease of its TCE ratio to 15.9%, because RWA further increased to €594 million at the end of March 2023.

Our TCE capital ratio is broadly similar to V-Bank's Common Equity Tier 1 (CET1) ratio of 20.8% at the end of 2022 (2021: 14.6%). Including €110 million AT1 instruments, V-Bank's total capital ratio improved to 44.8% in 2022 (2021: 26.0%). We believe V-Bank's regulatory capital ratios benefit from an overall low risk density of 10% at the end of 2022 (1Q23: 14%), which compares total RWAs as percent of assets. V-Bank calculates RWA under the standardized approach.

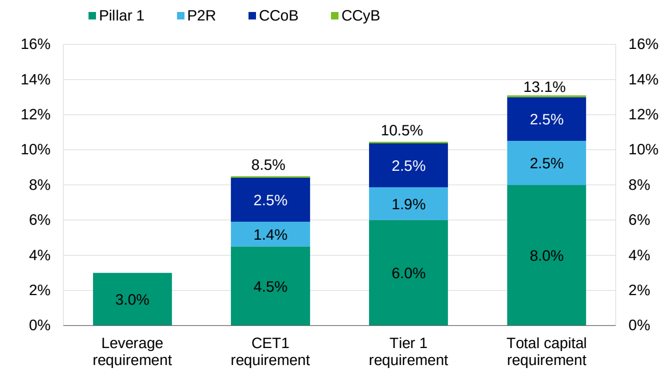
Despite the recent equity increase, however, V-Bank's Tier 1 leverage ratio declined to 4.5% in 2022, from 5.2% in 2021 which benefited from the temporary exemption of cash held at central banks. In contrast, our TCE leverage ratio which compares TCE to tangible banking assets remains very low despite a slight improvement to 2.1%, from 1.8% in 2021.

Exhibit 6
V-Bank's capital ratios, grouped by Moody's versus regulatory view
Data in percent of risk-weighted assets*



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

Exhibit 7
V-Bank comfortably exceeds its regulatory minimum requirements
Data in percent of risk-weighted assets**



Note: **The regulatory leverage ratio compares Tier 1 capital to exposure at default; P2R = Pillar 2 Requirement; CCoB = Capital Conservation Buffer; CCyB = Countercyclical Buffer.
Source: Moody's Investors Service, company reports

V-Bank operates with ample buffers over regulatory minimum capital requirements. At the end of 2022, the bank's excess capital above its 8.5% Pillar 2 CET1 requirement was 1,227 basis points (bps), and 3,431 bps above its 10.5% Pillar 2 minimum Tier 1 requirement. The introduction of Germany's countercyclical capital buffer (CCyB) requirement of 0.75% of domestic risk-weighted assets, effective 1 February 2023, triggered an increase in V-Bank's Pillar 2 CET1 requirements to 9.0%. In contrast, the bank's buffer above its 3.0% minimum regulatory leverage ratio is much tighter, at 4.5% at the end of 2022, reflecting €110 million issued AT1 instruments (2021: €45 million).

We expect that V-Bank will continue operating with a CET1 capital ratio of more than 14.0% and have significant capital headroom over going concern its Pillar 2 requirement, which stood at 1,227 bps at the end of 2022, up from 599 bps in 2021. The improved buffer largely reflects the bank's capital increase. We estimate that Germany's implementation of a 0.75% countercyclical capital buffer (CCyB) requirement for domestic RWA, effective 1 February 2023, will only moderately increase the bank's CET1 Pillar 2 capital requirement by around 50 bps, compared with 8.5% at the end of 2022.

Moderate profitability which is dependent on client activity and the performance of capital markets

V-Bank's assigned ba1 Profitability score is one notch above its initial score. The positive adjustment reflects our expectation that the bank will be able to improve its return on assets to around 40 bps. Our profitability assessment for V-Bank also captures the bank's high dependence on capital market developments and client-driven fee income, which can result in earnings volatility, reflecting client behavioral changes in times of economic uncertainties.

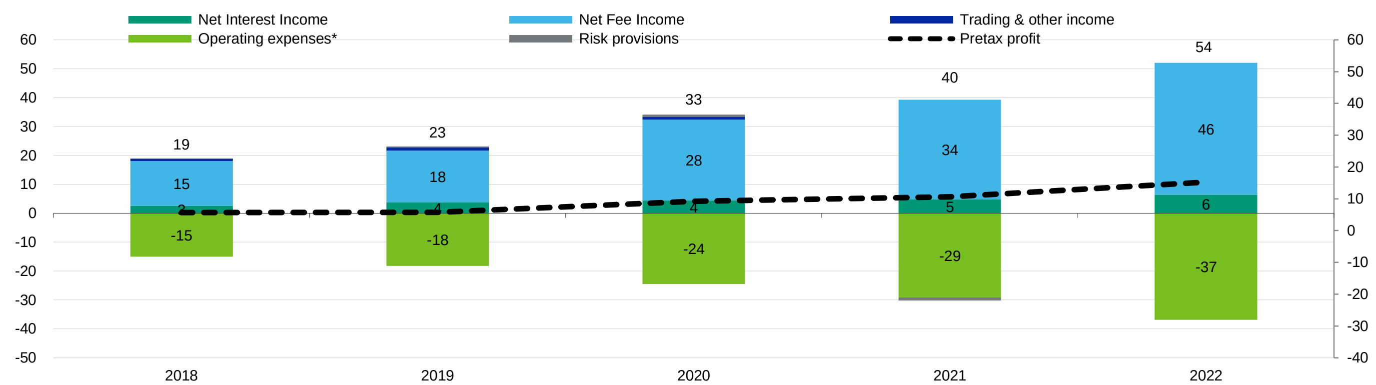
V-Bank's revenue is predominantly driven by net fee and commission income derived from the level of AUC managed and customers' trading activity, accounting for 87% of the bank's total revenue last year, up from 86% and 84% in 2021 and 2020, and on average 78% for the years 2017-19. In 2022, the bank's customer base grew 29% to around 51,000, and the AUC increased by 4% to €38.3 billion. Further, last year's heightened market volatility in combination with moderate pricing adjustments helped to improve V-Bank's margin, which compares net fee and commission income to AUC, to 12 bps in 2022, compared with 10bps in 2021. For 2023 and beyond, we expect that V-Bank's profitability will improve, reflecting the normalization of interest rates, and, hence, the higher contribution from interest income earned on high-quality, short-duration financial securities. We believe this will increase the bank's net income compared with total assets to around 40 bps, compared with around 27bps in 2022.

V-Bank's operational efficiency faces rising expenses from higher personnel and general costs originating from ongoing growth investments. However, because of its scalable business model and digital platform, the bank will benefit from economies of scale, leading to improving operating efficiency. We expect that V-Bank's cost-to-income ratio will improve to around 50%, compared with 69% in 2022 and around 72% for the years 2021 and 2020.

For 2022, V-Bank reported net income after taxes of €8.7 million, up 30% from the prior year. The increase reflects higher revenues of €53 million, up 32.5% year-on-year, driven by a 35% increase in fee and commission income to €46 million (2021: €34 million) and slightly higher net interest income of €6 million (2021: around €5 million). Operating expenses, including depreciation and amortization, grew by around 27% to €37 million in 2022, compared to €29 million in the prior year, following recruitment and investments in IT infrastructure and product offerings. Last year, V-Bank book credit provisions for Lombard loans of €0.4 million (2021: zero), resulting in a reported pretax profit of €18 million, compared with €11 million in 2021.

Exhibit 8

V-Bank's improving pretax profit reflects higher net fee and commission income because of higher AUC and client trading activity
Data in € million



Note: *Operating expenses include personnel expenses, administrative expenses, including bank levies and deposit insurance fees, and depreciation and amortization.
Source: Moody's Investors Service, company reports

Very solid funding profile reflecting granular and largely guaranteed retail deposits which limit V-Bank's reliance on wholesale market funding

V-Bank's very low market funding dependence is reflected in our assigned a3 score for Market Funding, five notches below the aa1 initial score. The assigned score strongly underpins the bank's overall baa1 financial profile and incorporates our assessment that the bank's granular retail deposits are associated with the level of AUC, reflecting the end-clients investment risk appetite and thus less sensitive to the interest rate earned on it. Our favorable assessment is mitigated by moderate concentration risks because a small number of financial advisors account for a double-digit share of AUC and all financial advisors ultimately control the end-client relationship, which can result in unexpected sizeable deposit outflow.

In 2022, V-Bank's very low Market Funds ratio remained broadly unchanged at 1.3%, compared with 1.7% in 2021. Despite V-Bank's strong balance sheet growth to €4.5 billion at the end of 2022 from €1.9 billion in 2018, the bank's market funding dependence remained very low, at around 1.1% on average. This exclusively reflects liabilities to banks, at €58 million at the end of 2022. Over the same period, V-Bank's deposits increased to €4.2 billion from €1.8bn, leaving its deposits as percent of total liabilities broadly unchanged at around 93% at the end of 2022. Around 90% of the bank's deposits are guaranteed by Germany's Deposit Protection Fund of the Association of German Banks (Entschaedigungseinrichtung deutscher Banken GmbH), reflecting an average size per customer of around €80,000, and are mostly denominated in euro.

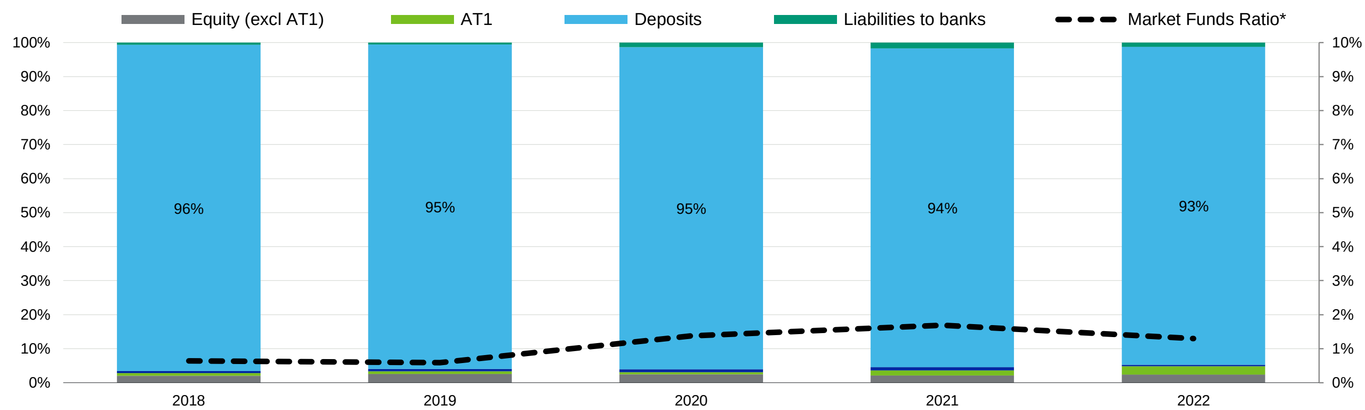
As V-Bank continues to grow, we expect that the Munich-based bank will be able to benefit from an unchanged very high share of retail deposits which can, however, somewhat fluctuate depending on the end-clients investment risk appetite, requiring carefull monitoring for the bank's liquidity management. Since 2019, V-Bank's deposits ranged between 8-11% of AUC.

Over time, we expect V-Bank's gross loan-to-deposit ratio to remain unchanged, reflecting unchanged customer risk appetite to leverage its investments. At the end of 2022, €344 million or around of 8% of the bank's assets or deposits reflected Lombard lending, a ratio which again remains unchanged since 2018.

Exhibit 9

V-Bank benefits from very sizeable and granular deposits which are less sensitive to the interest earned but rather reflect the end-clients investment risk appetite

Liabilities as percent of tangible banking assets



Note: *Market Funds Ratio = Market funds/tangible banking assets.
Source: Moody's Investors Service, company reports

V-Bank has issued AT1 instruments to comply with regulatory leverage requirements as its balance sheet is growing. At the end of 2022, the issued nominal volume for these instruments which are designated to bear losses in case of resolution or bankruptcy, had increased to €110 million, or 2.5% of tangible banking assets, up from €45 million in 2021 and €15 million in 2020. In 2022, V-Bank issued to its owners and other professional financial advisors €70 million new instruments with a 5.125% low-trigger CET1 ratio and first call date on 30 September 2027. From the remaining €40 million AT1 instruments, €10 million can be called first on 30 September 2025 and €30 million can be called first a year later on 30 September 2026; all these instruments come with a 7.0% high-trigger CET1 ratio.

Moderate liquidity supported by the ECB's refinancing programs and mitigated by asset encumbrance

We assign an a1 Liquid resources score to V-Bank, three notches below the aa1 initial score. Our assessment reflects V-Bank's deposit-driven balance sheet and very low customer loans which result in very high cash and central bank balances, as well as sizeable financial securities. Our adjustment also takes into account a moderate decline in the bank's Liquid resources, because a small share of the bank's intended asset mix change is invested into corporate/financial bonds/funds to benefit from higher coupons. We consider these financial securities less liquid than highly-rated governments or comparable financial securities and thus exclude them from our Liquid Resources ratio.

As a custodian bank, V-Bank's liquid resources are higher than for commercial banks and or Swiss wealth managers. This reflects the absence of commercial loans and a relatively low share of security lending (Lombard loans), accounting for only 8% of assets.

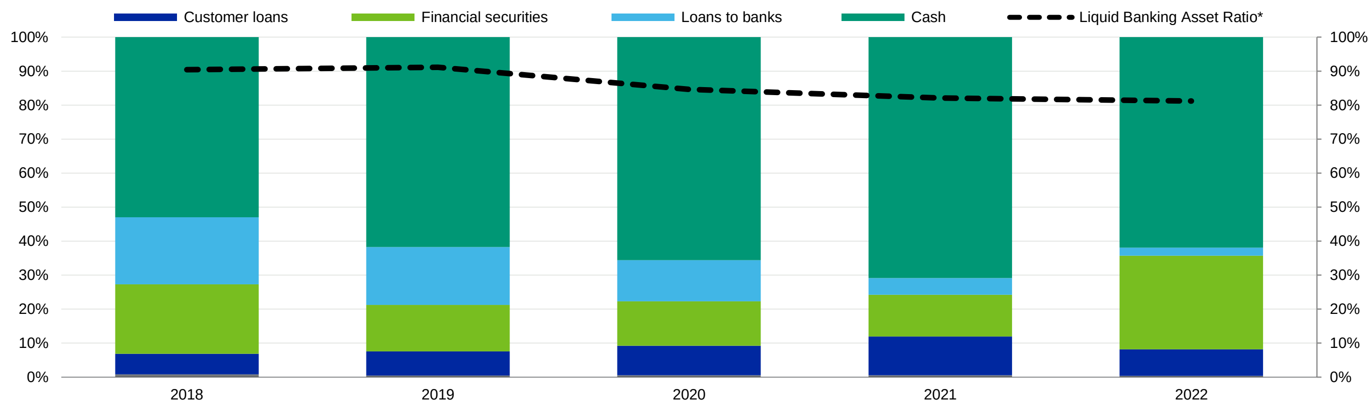
Our Liquid Banking Asset ratio of 81.2% at the end of 2022 considers V-Bank's €2.8 billion in cash and central bank money, €104 million loans to banks, and €999 million high-quality, short-duration financial securities, of which around 68% are repoable with the German Bundesbank. We expect that the bank's LBA ratio remains above 70% as it increases the share of financial security investments, including corporate and financial institution bonds with at least A ratings.

We expect that V-Bank will carefully manage its liquid resources, including ample minimum cash positions held at the German Bundesbank. V-Bank's concentration risks to a small number of financial advisors who manage the end-client relationship, creates liquidity risk which can result in sudden, unexpected large deposit outflows. Our favorable view of V-Bank's liquidity is also underpinned by its high regulatory liquidity coverage ratios (LCR) of 218% at the end of 2022, which slightly decreased from 236% on average during the four quarters of the year 2021 (2020: 221%).

Exhibit 10

V-Bank's very high liquidity reflects its business model as custodian and the absence of commercial lending with the exception of small security lending activities

Assets as percent of tangible banking assets



Note: *Liquid Banking Asset Ratio = Liquid assets/tangible banking assets.
Source: Moody's Investors Service, company reports

Qualitative adjustment captures narrow business model

We reduce V-Bank's weighted average outcome of assigned Financial Profile factor scores by one notch to reflect the bank's narrower business model and shorter value chain than a bank that fully owns its distribution franchise to the end customer and produces additional revenue-generating products in house. As one of the larger specialist custodians in Germany, V-Bank is exposed to market-driven fluctuations in assets under custody (AUC) which can result in earnings volatily, and at the same time, it naturally limits the potential for (earnings) diversification. Because of this, we consider V-Bank to operate more of a monoline business model, with concentrated earnings sources which is reflected in a one-notch downward qualitative adjustment for business diversification in the standalone assessment.

Business diversification is an important gauge of a bank's sensitivity to stress in a single business line. It is related to earnings stability in the sense that earnings diversification across distinct and relatively uncorrelated lines of business increases the reliability of a bank's earnings streams and its potential to absorb shocks affecting a business line.

ESG considerations

V-Bank AG's ESG Credit Impact Score is CIS-3

Exhibit 11

ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

V-Bank's **CIS-3** indicates limited impact of ESG considerations on the ratings to date with potential for greater negative impact over time, mainly due to moderate governance risks. Environmental and social factors have a limited impact on the ratings to date.

Exhibit 12
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	S-3	G-3
Neutral-to-Low	Moderately Negative	Moderately Negative

Source: Moody's Investors Service

Environmental
V-Bank faces low environmental risks. In line with most depository institutions and wealth managers, V-Bank has low exposure to carbon transition risk from Lombard lending and its financial securities exposures are well diversified. In response to developing customer focus on environmental stewardship and wider ESG considerations, the bank increasingly takes steps to align its customer services with the transition to a low-carbon economy.

Social
V-Bank faces moderate social risks related to regulatory and litigation risks, requiring the bank to meet high compliance standards. In line with most depository institutions and wealth managers, V-Bank's exposure to customer relations risks is mitigated by the bank's developed policies and procedures, supported by its client mix being geared towards more professional clients. High data security and customer privacy risks are also mitigated by technology solutions and organizational measures to prevent data breaches. Social risks related to demographic trends are partly mitigated by the bank's focus on wealth management services, including services for the transfer of wealth to the next generation.

Governance
V-Bank faces moderate governance risks and reflect the bank's very ambitious growth plans, which may continue to require external capital support in the absence of sufficient internal profit generation. V-Bank demonstrates sound governance through an independent board along with prudent financial policies, risk management and compliance functions, additionally proven by management's track record. V-Bank is majority owned by a family which holds a controlling stake. This results in governance risk related to concentrated ownership and potential outsized influence of the family on executive board members which is mitigated by the presence of independent directors and Germany's developed institutional framework. Financial disclosures are less comprehensive relative to peers and industry best practice.

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

Affiliate support is low
We assume a low probability that V-Bank's owners would support the bank in resolution or liquidation, which results in no rating uplift from affiliate support for V-Bank's ratings.

Loss Given Failure analysis
V-Bank is subject to the European Union's 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.

In our Advanced LGF analysis we consider not only the results of both the formal legal position (pari passu, or 'de jure' scenario), to which we assign a 75% probability, but also an alternative liability ranking, reflecting resolution authority discretion to prefer deposits over senior unsecured debt (full depositor preference, or 'de facto' scenario), to which we assign a 25% probability.

We assume a residual tangible common equity of 2.1% at the end of 2022, as well as asset losses of 8% of tangible banking assets in a failure scenario. We also assume a 25% runoff of junior wholesale deposits and a 5% runoff of preferred deposits. These ratios are in line with our standard assumptions. In addition, we apply a standard assumption for European banks that 26% of deposits are junior.

For V-Bank's deposit ratings (local and foreign currency), rated A2, Moody's Advanced LGF analysis indicates a very low loss given failure, leading to two notches of rating uplift from its baa1 Adjusted BCA.

For V-Bank's issuer ratings (local and foreign currency), rated A3, Moody's Advanced LGF analysis indicates a low loss given failure, leading to one notch of rating uplift from its baa1 Adjusted BCA.

Government support considerations

Because of its small size relative to the German banking system and its limited degree of interconnectedness, we assigned a low government support probability assumption to V-Bank, which does not result in any rating uplift for the bank's deposits and issuer ratings.

Counterparty Risk Ratings (CRRs)

V-BANK'S CRRs are A1/P-1

The A1 CRRs are three notches above V-Bank's baa1 Adjusted BCA, based on the extremely low loss given failure from the volume of instruments, primarily junior deposits and AT1 instruments, that are subordinated to CRR liabilities. V-Bank's CRRs do not benefit from government support, in line with our support assumptions on deposits.

Counterparty Risk (CR) Assessment

V-BANK'S CR Assessment is A1(CR)/P-1(CR)

V-Bank's A1(cr) CR Assessment is three notches above the baa1 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, primarily junior deposits and AT1 instruments. Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and takes no account of the volume of the instrument class. V-Bank's CR Assessment does not benefit from government support, in line with our support assumptions on deposits.

Rating methodology and scorecard factors

Methodology

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/api/rmc-documents/71997.

Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

ESG Considerations

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/74785

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 13

V-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	0.8%	aa2	↔	a3	Market risk	Operational risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.6%	aa1	↔	baa1	Risk-weighted capitalisation	Nominal leverage
Profitability						
Net Income / Tangible Assets	0.3%	ba2	↔	ba1	Return on assets	Expected trend
Combined Solvency Score		a1		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	1.3%	aa1	↔	a3	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	81.2%	aa1	↔	a1	Stock of liquid assets	Expected trend
Combined Liquidity Score		aa1		a2		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	80	1.8%	509	11.3%
Deposits	4,199	93.7%	3,771	84.1%
Preferred deposits	3,107	69.3%	2,952	65.8%
Junior deposits	1,092	24.3%	819	18.3%
Preference shares (bank)	110	2.5%	110	2.5%
Equity	94	2.1%	94	2.1%
Total Tangible Banking Assets	4,484	100.0%	4,484	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	22.8%	22.8%	22.8%	22.8%	3	3	3	3	0	a1
Counterparty Risk Assessment	22.8%	22.8%	22.8%	22.8%	3	3	3	3	0	a1 (cr)
Deposits	22.8%	4.6%	22.8%	4.6%	2	2	2	2	0	a2
Senior unsecured bank debt	22.8%	4.6%	4.6%	4.6%	2	0	1	1	0	a3

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	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	1	0	a3	0	A3	A3

[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 14

Category	Moody's Rating
V-BANK AG	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A3
ST Issuer Rating	P-2

Source: Moody's Investors Service

REPORT NUMBER 1378066

Contacts

Gerson Morgenstern
Associate Analyst