Fitch Takes Rating Action on Three Austrian Banking Groups on Coronavirus Disruption

Thu 02 Apr, 2020 - 12:58 PM ET

Fitch Ratings - Frankfurt am Main - 02 Apr 2020: Fitch Ratings has placed the Long-Term Issuer Default Ratings (IDRs) and Viability Ratings (VRs) of Erste Bank Group Bank AG (Erste), BAWAG P.S.K. (BAWAG) and Volksbanken-Verbund (VBV) on Rating Watch Negative (RWN) due to disruption caused by the coronavirus outbreak in Austria and globally. A full list of rating actions is below.

Fitch expects economic growth in the eurozone, including in Austria, to slow sharply in 2020. Fitch expects the economy to recover in 2H20 if the health crisis subsides, fiscal easing measures come into effect and pent-up demand pushes growth above trend. While the ultimate implications of the coronavirus outbreak on the Austrian economy are uncertain as they depend on the duration of the lockdown, Fitch considers the risks to banks' credit profiles to be clearly skewed to the downside, which has driven the rating actions.
Austria has announced a EUR38 billion package, including a EUR4 billion direct aid to the economy, EUR15 billion aid and compensation fund for companies that had to shut down and EUR10 billion for tax payment deferrals. The remaining EUR9 billion is earmarked for guarantees to ensure companies' liquidity. As opposed to other countries, the Austrian government has not yet announced a mortgage loan relief programme.

Despite the government's measures, we expect the Austrian operating environment for banks to deteriorate significantly in 2020 and we have revised the outlook of our assessment of the sector's operating environment to negative. We expect asset quality to weaken relative to previous assessments and earnings challenges to intensify due to weaker business volumes and rising loan impairment charges. Banks have solid risk-weighted capital ratios and the funding profile is underpinned by a high customer deposit base.

### RATING ACTIONS

<table>
<thead>
<tr>
<th>ENTITY/DEBT</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volksbank Wien AG LT IDR BBB</td>
<td>Rating Watch On</td>
</tr>
<tr>
<td></td>
<td>ST IDR F2 Affirmed</td>
</tr>
<tr>
<td>Volksbank Niederoesterreich AG LT IDR BBB</td>
<td>Rating Watch On</td>
</tr>
<tr>
<td></td>
<td>ST IDR F2 Affirmed</td>
</tr>
<tr>
<td>Volksbank Oberoesterreich AG LT IDR BBB</td>
<td>Rating Watch On</td>
</tr>
<tr>
<td></td>
<td>ST IDR F2 Affirmed</td>
</tr>
</tbody>
</table>

**KEY RATING DRIVERS**

Erste
Unless stated below, the key rating drivers for Erste are those outlined in our Rating Action Commentary published in January 2020 (Fitch Affirms Erste at 'A'; Outlook Stable).

Erste's 'A' Long-Term IDR, 'a' VR and debt ratings have been placed on RWN because the economic fallout from the pandemic represents a near-term risk to its ratings. This is because we believe that Erste will be challenged by the downside risks in the operating environment in its Austrian home market while at the same time having to manage rising risks in its more volatile CEE markets. We believe the economic and financial market fallout creates additional downside risks to our assessment of asset quality, earnings and profitability and capitalisation to when we last reviewed the bank's ratings.

Fitch has downgraded the ratings for subordinated Tier 2 debt by one notch to reflect the switch to a baseline notching of two notches for loss severity from the respective VRs under Fitch's updated Bank Rating Criteria from one notch under the previous criteria. The widened notching reflects our expectation that the bank will not maintain buffers of Tier 2 and AT1 debt exceeding 10% of their respective risk-weighted assets.

Erste's DCR, long-term senior preferred and long-term senior non-preferred debt ratings, which remain UCO, will be reviewed and resolved as soon as practical and in any case within six months.

BAWAG

Unless stated below, the key rating drivers for BAWAG are those outlined in our Rating Action Commentary published in January 2020 (Fitch Affirms BAWAG at 'A-'; Outlook Stable).

Fitch has placed BAWAG's 'A-' Long-Term IDR, 'a-' VR, and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to BAWAG's ratings.

We believe the economic and financial market fallout creates additional downside risks to our assessment of asset quality, earnings and profitability and capitalisation relative to when we last reviewed the bank's ratings. BAWAG is less exposed to SMEs than its Austrian peers, but credit losses could arise in the bank's international lending and in its corporate portfolios.

We have also downgraded by one notch the ratings for subordinated Tier 2 debt to reflect the switch to a baseline notching of two notches for loss severity from
the respective VRs under Fitch’s updated Bank Rating Criteria from one notch under the previous criteria. The widened notching reflects our expectation that the bank will not maintain buffers of Tier 2 and AT1 debt exceeding 10% of their respective risk-weighted assets.

Volksbanken-Verbund

Unless noted below, the key rating drivers for Volksbanken-Verbund (VBV) are those outlined in our Rating Action Commentary published in January 2020 (Fitch Affirms VB-Verbund at 'BBB'; Outlook Stable https://fitchratings.com/site/pr/10108825).

Fitch has placed VBV’s 'BBB' Long-Term IDR and 'bbb' VR on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to its ratings. VBV enters the downturn from a position of relative weakness, given its stabilised but only modest profitability compared with peers. We expect pressure on the bank’s asset quality and profitability from lower business volumes as well as higher loan impairment charges (LICs) from rising NPLs. We also expect pressure on VBV’s capitalisation, which at 12.8% CET1 ratio at end-2019 was in line with its domestic peers, due to negative rating migration that could inflate RWAs.

RATING SENSITIVITIES

Erste

The RWN on Erste's ratings reflects the near-term risks arising from the coronavirus outbreak and the heightened probability of a downgrade. Its earnings resilience is based on geographic diversification in more advanced CEE economies, which we believe will come under pressure as economic disruptions are taking place in the region at the same time. This means Erste has moderate rating headroom to offset pressure on its earnings and ultimately on its capitalisation. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank’s credit profile becomes more apparent.

Potential downgrade triggers are: i) sustained asset-quality deterioration ii) sustained pressure on operating profitability from lower revenues and higher loan impairment charges; or iii) a further downward revision of Fitch's outlook for the Austrian and CEE economies. In resolving the RWN, Fitch will seek to understand the extent to which compensation by governments for direct

pandemic-related losses in Erste's main markets will cushion the financial impact on the bank's asset quality, earnings and solvency.

The RWN could be removed and the ratings affirmed if the disruptions are short-lived and the implication on Erste's financial profile turns out to be immaterial.

In the event Erste withstand ratings pressure arising from the coronavirus outbreak, the most likely trigger for an upgrade would be contingent to an improvement of asset quality metrics and earnings generation, together with higher capital ratios.

The subordinated Tier 2 debt ratings are primarily sensitive to changes in the bank's VR as well as in our assessment of the notes' loss severity or relative non-performance risk.

The key rating sensitivities for the ratings Under Criteria Observation are those outlined in our Rating Action Commentary published on 4 March 2020 (Fitch Places German and Austrian Banks Under Criteria Observation).

BAWAG

Unless stated below, the key rating sensitivities for BAWAG are those outlined in our Rating Action Commentary published in January 2020 (Fitch Affirms BAWAG at 'A-'; Outlook Stable).

The RWN on BAWAG's ratings reflects the near-term risks arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The bank's material exposure to asset classes potentially vulnerable to the effects of the crisis means that it has only moderate rating headroom. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent.

Potential downgrade triggers are i) a material increase in impaired loans or a deterioration in the asset quality of its corporate credit exposures; or ii) an expected sustained reduction of its operating profitability driven by credit losses and subdued earnings; or iii) a material capital erosion which would be difficult to restore in a relatively short period of time. In resolving the RWN, Fitch will seek to understand the extent to which fiscal support measures for the private sector will cushion the financial impact on the bank's asset quality and earnings.

The RWN could be removed and the ratings affirmed if the disruptions are short-lived and the implication on BAWAG's financial profile turns out to be immaterial.
In the event BAWAG withstand ratings pressure arising from the coronavirus outbreak, the most likely trigger for an upgrade would be contingent to a successful expansion and diversification of BAWAG's asset base, particularly the establishment of a solid franchise in the bank's targeted international markets, while maintaining a conservative risk appetite and a focus on retail banking.

The subordinated Tier 2 debt ratings are primarily sensitive to changes in the bank's VR as well as in our assessment of the notes' loss severity or relative non-performance risk.

Volksbanken-Verbund

Unless noted below, the rating sensitivities for Volksbanken-Verbund (VBV) are those outlined in our Rating Action Commentary published in January 2020.

The RWN on VBV’s ratings reflects the near-term risks from the coronavirus outbreak and the heightened probability of a downgrade. Potential downgrade triggers include a sharp deterioration in profitability that could be caused by weaker asset quality, and which could ultimately affect VBV’s capital position. In resolving the RWN, Fitch will seek to understand the extent to which fiscal support measures for the private sector will cushion the financial impact on the bank’s asset quality and earnings.

The RWN could be removed and the ratings affirmed if the disruptions are short-lived and the implication on VBV’s financial profile turns out to be immaterial.

In the event VBV withstand ratings pressure arising from the coronavirus outbreak, the most likely trigger for an upgrade would be contingent on VB-Verbund achieving a significant and sustainable improvement in cost efficiency and operating profitability. The VR is unlikely to rise above the 'bbb' category over the rating horizon, because of VB-Verbund's modest operating profit generation, also driven by a fairly small market share in the generally low-margin, high-cost Austrian retail banking market. The member banks' IDRs are equalised with and sensitive to the same drivers as VB-Verbund's IDRs.

**BEST/WORST CASE RATING SCENARIO**

Best/Worst Case Rating Scenarios - Financial Institutions:
Ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

ENDORSEMENT STATUS

<table>
<thead>
<tr>
<th>Entity Name</th>
<th>Endorsement Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAWAG P.S.K.</td>
<td>EU Issued</td>
</tr>
<tr>
<td>Erste Finance (Delaware) LLC</td>
<td>EU Issued</td>
</tr>
<tr>
<td>Erste Group Bank AG</td>
<td>EU Issued</td>
</tr>
<tr>
<td>Oesterreichische Aerzte- und Apothekerbank AG</td>
<td>EU Issued</td>
</tr>
</tbody>
</table>
Fitch Takes Rating Action on Three Austrian Banking Groups on Coronavirus Disruption

Volksbank Kaernten eG EU Issued
Volksbank Niederoesterreich AG EU Issued
Volksbank Oberoesterreich AG EU Issued
Volksbank Salzburg eG EU Issued
Volksbank Steiermark AG EU Issued
Volksbank Tirol AG EU Issued
Volksbank Vorarlberg e. Gen. EU Issued
Volksbank Wien AG EU Issued
Volksbanken-Verbund EU Issued

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:
HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, THE FOLLOWING
https://www.fitchratings.com/site/dam/jcr:6b03c4cd-611d-47ec-b8f1-183c01b51b08/Rating%20Definitions%20-%20May%202020v3%206-11-19.pdf DETAILS FITCH’S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH’S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

READ LESS

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch
relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein.
individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.
The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch’s approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.