



Fitch Affirms VB-Verbund at 'BBB'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 24 January 2020:

Fitch Ratings has affirmed Volksbanken-Verbund's (VB-Verbund) Long-Term Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook and Viability Rating (VR) at 'bbb'. A full list of rating actions is at the end of this rating action commentary.

Key Rating Drivers

IDR AND VR

Fitch assigns "group" ratings to VB-Verbund and the individual primary banks in line with our criteria for rating banking structures backed by mutual support mechanisms (Annex 4 of the Bank Rating Criteria). VB-Verbund is not a legal entity but a medium-sized network of cooperative banks, whose cohesion is primarily ensured by their mutual support scheme.

The affirmation of VB-Verbund's VR and IDRs and the member banks' IDRs reflects the group's strengthened cohesion, underlined by the completed intragroup consolidation in 2018, reduced risk appetite, improving asset quality, stabilised but modest performance and generally stable funding and liquidity profile. Capitalisation is only adequate and earnings retention capacity is expected to be modest in the medium term, due to the group's obligation to repay profit participation rights granted to the state by end-2023.

VB-Verbund focuses on Austrian retail, self-employed and SME clients, resulting in a predominantly domestic loan book. Non-performing loans (NPL; IFRS 9 Stage 3 loans) accounted for 3% of gross loans at end-2018, which is broadly in line with larger domestic Austria-focused peers. The NPL ratio reported by the group (which includes off-balance sheet items) decreased to 2.5% at end-1H19 (vs. 2.7% at end-2018). Management aims to keep the NPL ratio sustainably below 3% (based on its own definition), which we view as realistic thanks to strengthened risk management data and tools and the group's fairly prudent risk appetite.

VB-Verbund's profitability has stabilised and considerably improved after several years of legacy-related losses and restructuring costs. The group broke even in 2017 and the positive trend continued in 2018 and 1H19, driven by business growth, much lower risk charges and positive one-offs (in particular, gains from the sale of non-core foreign subsidiaries). We expect further improvement, supported by the bank's further cost-savings measures to reduce the cost/income ratio to 60% from 85% in the medium term. The intense competition in Austrian retail banking is likely to constrain long-term profitability.

Capitalisation is only adequate. The common equity Tier 1 (CET1) ratio stood at 12.7% at end-1H19. VB-Verbund has initiated capital-enhancing measures to retain a sufficient buffer over its increased regulatory capital requirements and mitigate regulatory risk-weight inflation. The group's obligation to repay to the government by end-2023 the EUR225 million still due from the bailout measures received during the crisis a decade ago will constrain its medium-term earnings retention. However, we view management's target of a minimum CET1 ratio of at least 12.25% as realistic and adequate.

VB-Verbund's funding mix is underpinned by a stable and granular retail and small SME deposit base. The group has gradually been restoring its access to capital markets through covered bonds and Tier 2 capital

issuances, as well as most recently Additional Tier 1 capital notes (EUR220 million in 1H19). VB-Verbund's total capital ratio increased to 17.9% at end- 1H19 from 14.7% at end-1H17.

The Single Resolution Board has yet to communicate its minimum requirement for own funds and eligible liabilities (MREL) to the group, but we expect the relatively large junior debt buffer to cover a potential subordination requirement. We also expect Volksbank Wien (VBW), the group's central institution, to increase issuance of senior unsecured debt to fulfil regulatory requirements.

VB-Verbund's and the member banks' Short-Term IDRs of 'F2' correspond to the higher option mapping to a 'BBB' Long-Term IDR and reflects Fitch's assessment of VB-Verbund's funding and liquidity.

SUPPORT RATING AND SUPPORT RATING FLOOR

VB-Verbund's Support Rating and Support Rating Floor (SRF) reflect Fitch's view that senior creditors can no longer rely on full extraordinary state support. This is driven by the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism, which provide a resolution framework that is likely to require senior creditors participating in losses, if necessary, instead, or ahead , of a bank receiving sovereign support.

RATING SENSITIVITIES

IDRS AND VR

Fitch believes that an upgrade of the group's IDRs and VR, and of the member banks' IDRs 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.

The Short-Term IDRs are sensitive to deterioration in the funding and liquidity profile.

A downgrade of the IDRs and VR could result from a failure to achieve sufficient cost savings and maintain pricing discipline. This could constrain profitability and challenge the group's ability to service the profit participation rights as scheduled, which could also occur if earnings deteriorate as a result of a severe downturn in Austria's economy. However, we view none of these scenarios as likely.

SUPPORT RATING AND SRF

An upgrade of VB-Verbund's Support Ratings and upward revision of the SRF would be contingent on a positive change in the sovereign's propensity to support the bank. This is highly unlikely in light of the prevailing regulatory environment, in our view.

ESG Considerations

Unless otherwise stated the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Volksbank Wien AG	LT IDR BBB ● Affirmed	BBB ●
	ST IDR F2 Affirmed	F2
Volksbank Salzburg eG	LT IDR BBB ● Affirmed	BBB ●
	ST IDR F2 Affirmed	F2
Volksbank Niederoesterreich AG	LT IDR BBB ● Affirmed	BBB ●
	ST IDR F2 Affirmed	F2
Volksbank Oberoesterreich AG	LT IDR BBB ● Affirmed	BBB ●
	ST IDR F2 Affirmed	F2
Volksbank Tirol AG	LT IDR BBB ● Affirmed	BBB ●
	ST IDR F2 Affirmed	F2
Volksbank Vorarlberg e. Gen.	LT IDR BBB ● Affirmed	BBB ●
	ST IDR F2 Affirmed	F2
Volksbanken-Verbund	LT IDR BBB ● Affirmed	BBB ●
	ST IDR F2 Affirmed	F2
	Viability bbb Affirmed	bbb
	Support 5 Affirmed	5
	Support Floor NF Affirmed	NF
Volksbank Steiermark AG	LT IDR BBB ● Affirmed	BBB ●

	ST IDR F2 Affirmed	F2
Volksbank Kaernten eG	LT IDR BBB ● Affirmed	BBB ●
	ST IDR F2 Affirmed	F2
Oesterreichische Aerzte- und Apothekerbank AG	LT IDR BBB ● Affirmed	BBB ●
	ST IDR F2 Affirmed	F2

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Markus Glabach
Director
+49 69 768076 195
Fitch Deutschland GmbH
Neue Mainzer Strasse 46 - 50
Frankfurt am Main D-60311

Secondary Rating Analyst
Marco Diamantini
Senior Analyst
+49 69 768076 114

Secondary Rating Analyst
Paul Noller
Analyst
+49 69 768076 119

Committee Chairperson
Olivia Perney
Managing Director
+33 1 44 29 91 74

MEDIA CONTACTS

Louisa Williams
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. 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](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.

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. The 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.

SOLICITATION STATUS

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.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. [Learn more.](#)