



RATING ACTION COMMENTARY

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 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

ENTITY/DEBT	RATING		
Volksbank Wien AG	LT IDR	BBB	Rating Watch On
	ST IDR	F2	Affirmed
Volksbank Niederösterreich AG	LT IDR	BBB	Rating Watch On
	ST IDR	F2	Affirmed
Volksbank Oberösterreich AG	LT IDR	BBB	Rating Watch On
	ST IDR	F2	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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.

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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.

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

BAWAG P.S.K.	EU Issued
Erste Finance (Delaware) LLC	EU Issued
Erste Group Bank AG	EU Issued
Oesterreichische Aerzte- und Apothekerbank AG	EU Issued

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

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Insurance Structured Finance Banks Structured Finance: RMBS

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