

RATING ACTION COMMENTARY**Fitch Downgrades Volksbanken-Verbund to 'BBB'; Outlook Stable**

Tue 21 Apr, 2026 - 06:00 ET

Fitch Ratings - Frankfurt am Main - 21 Apr 2026: Fitch Ratings has downgraded Austrian Volksbanken-Verbund's (VB-Verbund) Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB+' and Viability Rating (VR) to 'bbb' from 'bbb+'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is below.

The downgrade reflects VB-Verbund's higher than expected asset quality deterioration from its large exposure to commercial real estate (CRE), which has reduced the group's operating profitability to low levels. It also reflects a weakened risk profile, demonstrated by a structurally higher impaired loan ratio, and execution risks in meeting its workout plan to reduce the impaired loans ratio to 3% by end-2027 in the context of global geopolitical risks.

KEY RATING DRIVERS

Cooperative Domestic Banking Group: VB-Verbund is a medium-sized network of regional cooperative banks, not a legal entity. Volksbank Wien AG (VBW) acts as its central organisation. The group's strong cohesion is primarily ensured by its mutual support scheme. VB-Verbund's IDRs apply to each of its member banks, in line with Fitch's criteria for rating banking structures backed by mutual support mechanisms.

The group's ratings reflect a small domestic franchise and modest diverse business model, which results in below-peer average operating profitability and cost efficiency, ultimately limiting financial flexibility. The ratings also reflect the group's adequate capitalisation, and good liquidity and funding profile, which is a relative rating strength.

Established Retail Business Profile: VB-Verbund benefits from a well-established retail-oriented cooperative franchise in the Austrian market, which translates into a stable and granular retail deposit base, and principally generates revenues from traditional retail and commercial banking services. The group's moderate size and regional focus results

in limited diversification and pricing power. Its business model has proved resilient throughout the cycle despite recent asset quality deterioration.

High CRE Risks: The group's overall risk profile benefits from a focus on core products, lending to a well-known long-term customer base of mostly domestic retail, self-employed and SME borrowers. However, more than 20% of its loan portfolio relates to higher risk CRE lending, including developers. This segment has performed poorly over the last two years, despite tightened lending standards, and significantly weighs on VB Verbunds's risk profile and asset quality.

Weak Asset Quality: VB Verbund failed to stabilise its asset quality indicators in 2025, and the stock of impaired loans continued to rise to 6.1%, primarily in the residential CRE sector. We expect progress from the group's loan work-out in 2026 will help manage asset quality pressures. However, we expect VB Verbund's impaired loan ratio will remain well above peers at around 4.8% in 2026-2027, also above the group's target of 3% end-2027.

Downside risks from current geopolitical conflicts remain high, particularly if they culminate in persistently higher energy prices, inflation and interest rates, as VB Verbund's asset quality has previously proved particularly sensitive to these factors.

Profitability Challenges: VB-Verbund's operating profit/risk-weighted asset (RWAs) ratio declined to 0.9% at end-2025, which is below peers. Lower net interest income highlights the group's sensitivity to interest rates and its net interest rate margin declined, despite downward deposit repricing. Loan impairment charges (LICs) declined significantly from last year's record level but remained well above the average. We expect profitability to reach a low in 2026 before a moderate recovery in 2027 as we expect LICs to return towards pre-2024 levels and cost pressure to level off.

Stable Capitalisation: The group's common equity Tier 1 (CET1) ratio of 15.6% at end-2025 offers adequate headroom over its regulatory capital requirements despite weakened internal capital generation. We also consider VB-Verbund's above average leverage ratio at 7.5% at end-2025. We expect VB Verbund to operate with a CET1 ratio above 15% in the coming years.

Stable Funding Franchise: VB-Verbund's granular retail and SME deposit base is a reliable source to fully fund loan growth and represents the group's main funding source (80% of non-equity funding). Customer deposits continued to rise, albeit modestly, in 2025 despite declining interest rates and we expect this trend to continue in 2026. VB-Verbund's funding profile also benefits from an established covered bond franchise. Other debt issuance is primarily linked to minimum requirements for own funds and

eligible liabilities. VB-Verbund's liquidity profile is sound and benefits from the group's joint pooling scheme.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

VB-Verbund's ratings could be downgraded if its impaired loan ratio stays above 6% for a prolonged period and operating profit decreases below 0.5% of RWAs. A reduction in VB-Verbund's CET1 ratio towards 12% without clear recovery prospects could also lead to a downgrade.

The Short-Term IDRs are sensitive to downgrades of the Long-Term IDRs, in conjunction with a deterioration of the group's funding and liquidity profile.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would require an improvement of the group's risk profile, which would be demonstrated by an impaired loan ratio of around 3% on a sustained basis. We would also require an improvement in the group's operating profit to above 1.0% of RWAs, while maintaining good capitalisation and funding and liquidity profile.

Fitch notes that the ratings of banks operating in developed resolution regimes could be affected if the Exposure Draft: Bank Rating Criteria is implemented as proposed upon conversion into final criteria.

Verbund's 'no support' Government Support Rating reflects Fitch's view that the EU's resolution framework is likely to require senior creditors participating in losses, if necessary, instead or ahead of a bank receiving sovereign support.

An upgrade of VB-Verbund's GSR would require a positive change in the sovereign's propensity to support banks. Fitch believes this is highly unlikely in light of the prevailing regulatory environment.

VR ADJUSTMENTS

The capitalisation & leverage score of 'bbb+' is below the 'a' category implied score due to the following adjustment reason(s): internal capital generation and growth (negative).

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Volksbank Wien AG	LT IDR	BBB Rating Outlook Stable		BBB+ Rating Outlook Negative
	Downgrade			
	ST IDR	F2	Affirmed	F2
Volksbank Salzburg eG	LT IDR	BBB Rating Outlook Stable		BBB+ Rating Outlook Negative
	Downgrade			
	ST IDR	F2	Affirmed	F2
Volksbank Niederösterreich AG	LT IDR	BBB Rating Outlook Stable		BBB+ Rating Outlook Negative
	Downgrade			
	ST IDR	F2	Affirmed	F2

Volksbank Oberoesterreich AG	LT IDR	BBB Rating Outlook Stable	BBB+ Rating Outlook Negative
	Downgrade		

	ST IDR	F2	Affirmed	F2
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Volksbank Tirol AG	LT IDR	BBB Rating Outlook Stable	BBB+ Rating Outlook Negative
	Downgrade		

	ST IDR	F2	Affirmed	F2
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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 21 Mar 2025\) \(including rating assumption sensitivity\)](#)

[Financial Institutions Climate Vulnerability Rating Criteria \(pub. 08 Dec 2025\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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Volksbank Oberoesterreich AG	EU Issued, UK Endorsed
Volksbank Salzburg eG	EU Issued, UK Endorsed
Volksbank Steiermark AG	EU Issued, UK Endorsed
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Volksbank Vorarlberg e. Gen.	EU Issued, UK Endorsed
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Volksbanken-Verbund	EU Issued, UK Endorsed

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