MOODY'S
INVESTORS SERVICE

Rating Action: Moody's confirms Aa1 ratings on BAWAG's public sector covered bonds

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Frankfurt am Main, July 11, 2014 -- Moody's Investors Service has confirmed the Aa1 ratings on the public-sector covered bonds issued by BAWAG P.S.K. (BAWAG, deposits Baa2 negative, bank financial strength rating D+/adjusted baseline credit assessment ba1). This rating action concludes the review of the above ratings initiated on 12 March 2014.

RATINGS RATIONALE

The confirmation of the Aa1 rating on BAWAG's public sector covered bonds follows the issuer's announcement that it will not hold over-collateralisation (OC) in committed form to a level that is consistent with a Aaa rating.

The timely payment indicator (TPI) assigned to this transaction is "High". Moody's TPI framework does not constrain the rating.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor event); and (2) the stressed losses on the cover pool assets following a CB anchor event.

The CB anchor for this programme is the senior unsecured rating plus one notch given the debt ratio is above 10%.

The cover pool losses that Moody's models for this programme are 11.9% following a CB anchor event. Moody's splits cover pool losses between a market risk of 8.5% and a collateral risk of 3.4%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches; these losses could also include certain legal risks. Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 6.9%.

The OC in the cover pool is 197.9%, of which BAWAG provides 7.0% on a "committed" basis. The minimum OC level consistent with the Aa1 rating target is 8% and the minimum committed OC level consistent with the Aa1 rating target is 0%.

All numbers in this section are based on the most recent performance overview, which used data as of 31 March 2014.

The cover pool losses are an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk and collateral risk. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from the cover pool assets' credit quality. Moody's derives collateral risk from the collateral score.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI leeway across covered bond programmes rated by Moody's, please refer to "Moody's Global Covered Bonds Monitoring Overview", published quarterly.

TPI FRAMEWORK: Moody's assigns a TPI, which measures the likelihood of timely payments to covered bondholders following a CB anchor event. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI leeway measures the number of notches by which Moody's might lower the CB anchor before downgrading the ratings on the covered bonds because of TPI framework constraints.

Based on the current TPI of "High", the TPI leeway for this programme is one notch. As a result, Moody's might downgrade the covered bonds because of a TPI cap, if it lowers the CB anchor by one notch, all other variables being equal.

A multiple-notch downgrade of the ratings on the covered bonds could occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (2) a multiple-notch downgrade of the issuer; and/or (3) a material reduction in the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds", published in March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Patrick Widmayer
Asst Vice President - Analyst
Structured Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Juan Pablo Soriano
MD - Structured Finance
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454