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CREDIT OPINION
9 July 2020

Update

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RATINGS

BAWAG P.S.K.

Domicile	Vienna, Austria
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Dom Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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BAWAG P.S.K.

Update to credit analysis

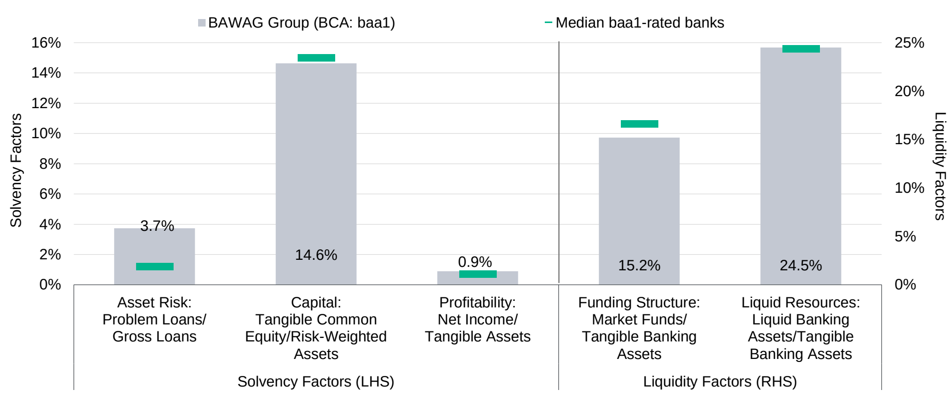
Summary

We assign A2 stable/P-1 issuer and deposit ratings and A2 stable senior unsecured debt ratings to BAWAG P.S.K. AG (BAWAG). Furthermore, we assign Baa2 junior senior unsecured and subordinated debt ratings, as well as a baa1 Baseline Credit Assessment (BCA) and baa1 Adjusted BCA, and an A1/P-1 Counterparty Risk Rating to BAWAG.

BAWAG's A2 deposit, issuer and senior unsecured debt ratings reflect its baa1 BCA and two notches of uplift from the application of our Advanced Loss Given Failure (LGF) analysis to the bank's liabilities. We do not incorporate rating uplift from government support for BAWAG due to the wider scope of BRRD application in Austria and evidenced willingness of its government to apply burden-sharing to creditors.

BAWAG's baa1 BCA, which is based on consolidated group financials published for BAWAG Group AG (BAWAG Group), reflects above-average profitability levels among Austrian banking groups. BAWAG's BCA also factors in its strong deposit funding base and adequately sized liquid resources. In addition, the bank's solid capitalisation provides a sufficient safety buffer to absorb future growth ambitions. In contrast, exposures to real estate, as well as non-retail lending and asset books, expose BAWAG to asset risk concentrations. Our view on the bank's BCA could change if the coronavirus credit shock led to a sustained erosion of BAWAG's solvency strengths.

Exhibit 1
Rating Scorecard - Key financial ratios



The asset risk and profitability ratios reflect the average for the period from 2017 to 2019
Source: Moody's Financial Metrics

Credit strengths

» Solid capitalisation level is sustained, despite inorganic growth and return of funds to shareholders.

» Efficient operations support above-average profitability in a domestic banking industry context.

» Strong access to stable retail deposits supports the bank's funding profile.

Credit challenges

» Amid the coronavirus crisis, competitive markets and low rates, BAWAG will be increasingly challenged to reinvest into exposures with adequate risk-return profiles.

» Dynamic asset composition as a result of repeated M&A and tactical asset investments in more concentrated non-retail portfolios.

» The bank has yet to establish a profitable niche position in German retail banking following several acquisitions.

Outlook

» The stable outlook reflects both the bank's limited upside potential on its standalone financial strength and our confidence that BAWAG will continue to successfully execute its issuance plans.

Factors that could lead to an upgrade

» Upward pressure on BAWAG's BCA could result from (1) a sizable and sustainable increase in the bank's capitalization and capital buffers to regulatory requirements; and (2) a successful establishment of BAWAG's retail banking operations in Germany, as far as this results in a stronger emphasis on retail banking activities within BAWAG's business mix.

» BAWAG's long-term ratings could also be upgraded as a result of a sustained increase in volumes of instruments that are explicitly designed to absorb losses prior to senior unsecured instruments.

Factors that could lead to a downgrade

» BAWAG's ratings could be downgraded if the bank's financial strength significantly deteriorates following: (1) larger acquisitions that would significantly reduce BAWAG's capital ratios and result in material execution risks; (2) execution and performance challenges related to the integration and management of acquired portfolios or banks; or (3) a meaningful weakening of the credit quality in its core business.

» A downgrade of BAWAG's ratings, in particular of the issuer and senior unsecured debt ratings, could also develop if BAWAG's volume of unsecured debt instruments decreases relative to the bank's tangible banking assets, which could result in fewer notches of rating uplift resulting from our Advanced LGF analysis.

Key indicators

Exhibit 2
BAWAG Group AG (Consolidated Financials) [1]

	12-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	44.7	44.5	45.8	39.3	35.2	6.2[4]
Total Assets (USD Billion)	50.2	50.9	55.0	41.4	38.2	7.1[4]
Tangible Common Equity (EUR Billion)	3.0	3.3	3.0	2.7	2.6	3.8[4]
Tangible Common Equity (USD Billion)	3.4	3.7	3.6	2.8	2.8	4.7[4]
Problem Loans / Gross Loans (%)	3.7	3.6	3.5	2.1	2.3	3.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.6	16.0	14.0	14.1	15.5	14.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	35.7	31.6	33.5	21.2	20.4	28.5[5]
Net Interest Margin (%)	2.0	1.9	1.9	2.0	2.1	2.0[5]
PPI / Average RWA (%)	3.3	2.9	2.2	2.5	2.6	2.7[6]
Net Income / Tangible Assets (%)	1.1	0.9	0.7	0.8	1.1	0.9[5]
Cost / Income Ratio (%)	49.3	49.1	56.5	56.3	51.9	52.6[5]
Market Funds / Tangible Banking Assets (%)	15.2	16.6	18.4	18.3	22.2	18.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	24.5	20.3	20.5	16.4	16.8	19.7[5]
Gross Loans / Due to Customers (%)	101.0	101.8	100.4	110.3	115.0	105.7[5]

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel III - fully loaded or transitional phase-in; IFRS. [3]May include rounding differences because of the scale of reported amounts. [4]Compound annual growth rate (%) based on the periods for the latest accounting regime. [5]Simple average of periods for the latest accounting regime. [6]Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

BAWAG is a universal bank domiciled in Austria and is the main operating subsidiary of BAWAG Group, a listed holding company. The bank offers a range of retail and corporate banking products, including deposit taking, loans and investment services. Moreover, BAWAG provides international business products, such as commercial real estate financing and capital market solutions. While the bank operates primarily in Austria, it also has a presence in core Western European markets, most notably in Germany, where BAWAG acquired Südwestbank AG (Südwestbank) in 2017, Deutscher Ring Bausparkasse[1] in 2018, and BFL Leasing GmbH and EOS Health Honorarmanagement AG[2] in 2019. Furthermore, BAWAG expanded its direct banking (easybank) into Germany (under the Qlick brand) in 2018, offering consumer loans in association with Südwestbank. BAWAG also acquired Zahnärztekasse AG in 2019, which offers dental factoring solutions in Switzerland.

BAWAG Group held €46.5 billion of total assets as of the end of March 2020 and employed about 3,700 full-time equivalent employees, serving approximately 2.5 million customers. BAWAG's former cooperation agreement with Österreichische Post AG (Austrian Post) ended at the end of 2019 and the bank now serves its clients in Austria out of its 88 proprietary branches. In Germany, Südwestbank operates its 11 branches in the Land of Baden-Wuerttemberg (Aaa stable).

Following the completion of a share buyback in the fourth quarter of 2019, the percentage of free floating shares of BAWAG Group increased to 78.2%, with GoldenTree Asset Management LP (21.8%) remaining the bank's sole anchor shareholder, following the exit of former majority investor Cerberus.

For more information, please see BAWAG's most recent Issuer Profile and our Austrian Banking System Profile.

Weighted Macro Profile of Strong (+)

BAWAG is focused on the Austrian market and the bank's assigned Strong (+) Weighted Macro Profile is therefore in line with the Strong (+) Macro Profile of Austria.

Recent developments

The coronavirus will cause unprecedented shock to the global economy. The full extent of the economic downswing will be unclear for some time; however, G-20 economies will contract in 2020. We presently expect the G-20 advanced economies as a group to contract by 6.4% in 2020 and the euro area by 8.5%, followed by a gradual recovery in 2021. In Europe, the outbreak adds to late-cycle risks for European banks. The recession in 2020 will weigh on the banks' asset quality and profitability. In the current coronavirus-induced recession and its aftermath, capital levels will be a key differentiator of credit profiles among banks. Generally, banks are facing a sharp deterioration in asset quality and reductions in profitability from already low levels, while central banks are providing extraordinary levels of liquidity and governments have strong incentives to support banking systems to foster an eventual recovery. Thus, when comparing a bank to its peers, the level of capital with which it entered this recession and its ability to retain capital throughout the next several years take on particular importance.

In March 2020, the European Central Bank (ECB) announced a series of measures to help the European Union (EU) economies weather the widening effects of the coronavirus pandemic, temporarily increasing banks' liquidity provisions, as well as lowering regulatory capital and liquidity requirements. As part of these temporary measures, the ECB increased its targeted long-term refinancing operations (TLTRO III) under more favourable terms, as well as its financial asset purchase programme, while refraining from further lowering the ultralow interest rates.

The temporary suspension of buffer requirements for regulatory capital and the liquidity coverage ratio (LCR) provides banks greater flexibility and additional leeway to absorb the economic impacts, such as asset-quality declines. Overall, the package aims to help banks continue to finance corporates and small and medium-sized enterprises suffering from the effects of the coronavirus outbreak. We believe that the ECB's measures will provide limited relief for banks and their borrowers, and that significant fiscal policy measures by the EU and its member states will be required to avert higher default rates in banks' lending books.

Austria announced a large stimulus package that complements the ECB's supportive policy actions. The Austrian government launched emergency corporate lending guarantee programmes and expanded short-time work subsidies. The measures add to automatic stabilisers that support household incomes when unemployment increases. We believe these policy measures will soften the negative economic effects of the coronavirus outbreak, but might not fully mitigate the credit-negative operational effects of the outbreak.

Detailed credit considerations

Amid competitive markets and low rates, BAWAG will be increasingly challenged to reinvest into exposures with adequate risk-return profiles

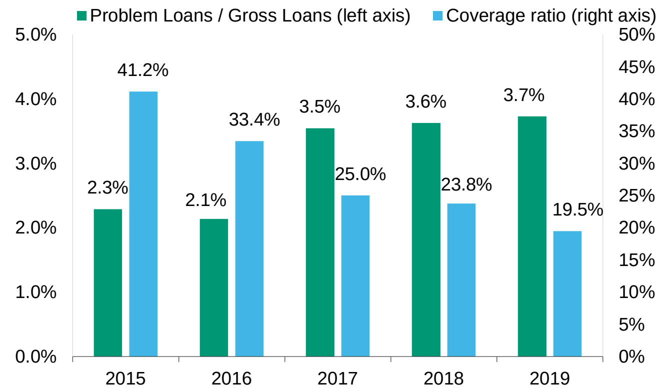
We assign a baa2 Asset Risk score to BAWAG, two notches below the a3 initial score. The adjustment reflects (1) our expectation of a higher level of problem loans throughout the credit cycle, in particular following the coronavirus crisis; (2) concentration risks in cyclical lending areas, including commercial real estate; and (3) the bank's repeated integration of new asset portfolios and subsidiaries.

As of year-end 2019, BAWAG's problem loan ratio stood at 3.7% (2018: 3.6%). Its €1,145 million of problem loans as of December 2019 included a €418 million gross receivable (value-adjusted to €254 million) disputed by the City of Linz from a closed swap transaction. On 7 January 2020, the Vienna-based court of first instance (Handelsgericht) ruled in an interim judgment that the city's treasurer had not been sufficiently authorised to enter into the swap and that it was therefore not validly entered into and, hence, void. This partial aspect of the litigation will be escalated to the court of appeal upon BAWAG's request. With the interim judgment on the validity of the contract, no decision has been made with regards to the amount of potential mutual claims.

BAWAG focuses on domestic retail banking operations, with €10.1 billion of domestic residential mortgage loans outstanding as of year-end 2019, which have been supplemented by two rundown mortgage portfolios in the UK and in France (€1.8 billion remaining balances). Another important pillar in BAWAG's domestic lending portfolio are its consumer lending and auto leasing activities, which contributed €5.1 billion of exposures as of December 2019. BAWAG entered into several partnerships with large Austrian retailers in 2018 to expand its footprint with retail customers through point-of-sale lending transactions.

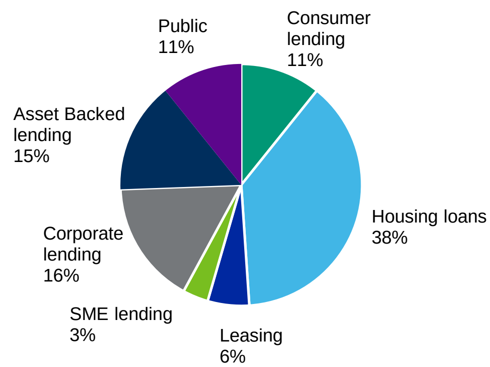
BAWAG adds non-retail exposures to its portfolio, in particular in the German-speaking corporates and real estate business, as well as in the international real estate and leveraged lending areas. In light of the strong competitive pressures that are unlikely to abate soon in the extended low interest rates environment, we believe BAWAG will have to stick to its very selective approach to maintain an adequate risk-return balance in these non-retail areas. These limited investment opportunities have in the past led to more

Exhibit 3
BAWAG's problem loan ratio decreased over recent years



Problem loan ratio in accordance with our definitions since 2018; according to IFRS 9 reporting standards
Source: Company reports, Moody's Investors Service

Exhibit 4
BAWAG's credit exposure split by type



Source: Company reports, Moody's Investors Service

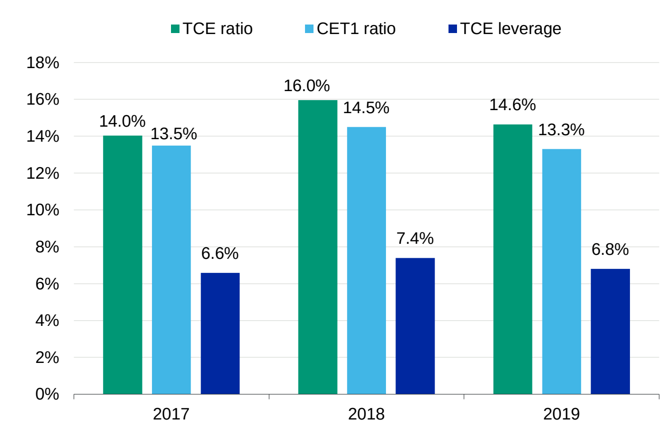
concentrated sector exposure increases, which, in our view, expose BAWAG, in particular in the commercial real estate segment, to cyclical risks, which have been exacerbated by the coronavirus crisis.

Solid capitalisation level is sustained, despite inorganic growth and return of funds to shareholders

We assign an a2 Capital score to BAWAG, one notch below the a1 initial score. The adjustment takes into account our view that BAWAG will continue to tightly manage its tangible common equity ratio within a range of 13%-16%, with temporary build-ups of capital being consumed over time through acquisitions and return of funds to shareholders.

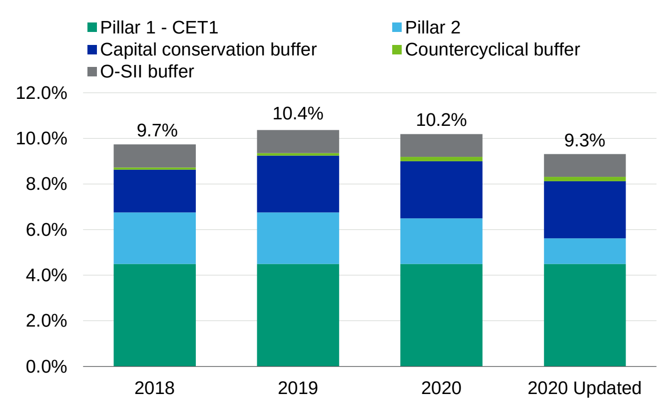
BAWAG's management targets a regulatory Common Equity Tier 1 (CET1) capital ratio of 13%. In the fourth quarter of 2019, the group finalised the execution of a share buyback programme worth €400 million (11% of outstanding shares), which led to a CET1 ratio pre dividend-accrual of 14.4% as of year-end 2019, while post a €230 million dividend accrual, the CET1 ratio stood at 13.3%. As of March 2020, the CET1 ratio, including an additional €30 million dividend accrual (50% of net profit in 1Q20), had dropped to 12.7%. While below management's target, the reported ratio still compared favourably with the bank's current regulatory CET1 ratio requirement of 9.3%, which was lowered from 10.2% during 1Q20 as part of regulatory forbearance measures intended to support the economy during the coronavirus crisis[3]. In addition, the bank has postponed its Annual General Meeting to the fourth quarter 2020 and only then will the 2019 dividend potentially be distributed (pending guidance from the ECB).

Exhibit 5
BAWAG's capital ratios exceed regulatory minima



TCE = Tangible Common Equity (Moody's calculation); CET1 = Common Equity Tier 1
Sources: Company reports, Moody's Investors Service

Exhibit 6
BAWAG's transitional CET1 requirements in detail



Source: Company reports

With a €300 million Additional Tier 1 (AT1) capital issuance in 2018 and a €400 million Tier 2 subordinated debt sale in 2019, BAWAG fully addresses its regulatory Tier 1 and total capital requirements. Upon the integration of acquired entities, the bank has, to some extent, achieved a reduction in applicable credit risk weights by selectively rolling out to some portfolios internal models in replacement of the standardised approach. However, the group's risk-weighted assets/total assets remains in excess of 40%, where we expect it to remain as a result of offsetting pressures from regulatory changes and optimisation measures applied by BAWAG.

Efficient operations support the above-average profitability in a domestic banking industry context

We assign a baa1 Profitability score, in line with the initial score. This positioning takes into account the bank's upward trend in net profit, balanced by our expectation that the cost of risk will normalise upwards from the benign levels seen in recent years and the bank will remain challenged to replace maturing non-retail exposures with investments that offer an adequate risk-return profile.

BAWAG has operated with a comparably low adjusted cost-income ratio, which reflects strict and efficient cost management over the past years. BAWAG has further reduced its physical presence and associated costs incurred as a bricks-and-mortar retail bank in Austria, with the conclusion of its exit from the distribution partnership with Austrian Post as of year-end 2019, after which the bank now exclusively operates through 88 proprietary branches. In addition, BAWAG's strong earnings over the past years have helped the bank to create an advanced IT infrastructure that in turn helps to keep operating expenses in check.

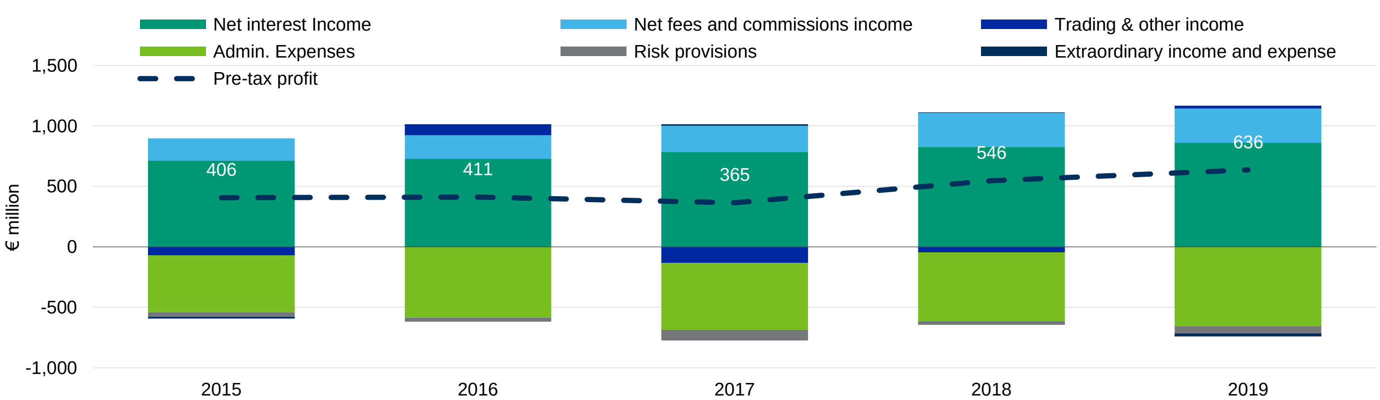
In 2019, BAWAG's reported net interest margin of 2.30% remained at a strong level, particularly when considering its focus on domestic and German retail banking. As a result, the Moody's adjusted net interest income of €860 million (2018: €826 million), combined with €284 million in net fee and commission income (2018: €283 million) and €184 million of other revenues (2018: €55 million), comfortably covered the bank's €654 million in operating expenses (2018: €571 million) as well as loan-loss and other provisions of €71 million (2018: €47 million). The net profit, according to our definition, thus reached €480 million in 2019 (2018: 415 million).

In the first quarter of 2020, BAWAG reported a decline in profitability as a result of the coronavirus crisis, with reported net income of €61 million compared with €97 million recorded in 1Q19[4]. The sole driver was a sharp increase in loan loss provisions, which rose to €55 million in 1Q20 versus €12 million in 1Q19. €25 million of the €55 million risk costs represented an increase in general loan loss provision, reflecting the deteriorating macro outlook, as well as payment holidays, while the bank also booked a €10 million specific provision for an exposure in the Oil & Gas sector. Partly offsetting this negative development will be lower operating costs in 2020, which BAWAG expects to decline by 5% from 2019 levels due to ongoing efficiency measures[5].

Exhibit 7

BAWAG's pre-tax profit significantly increased over recent years

Fee and commission income diversifies earnings split



Source: Company reports, Moody's Financial Metrics, Moody's Investors Service estimates

Strong access to stable retail deposits supports BAWAG's funding profile, but reliance on market funding will increase

Our baa1 assigned Funding Structure score is positioned one notch below the a3 initial score, reflecting that the bank's reliance on market funding sources will increase due to regulatory requirements.

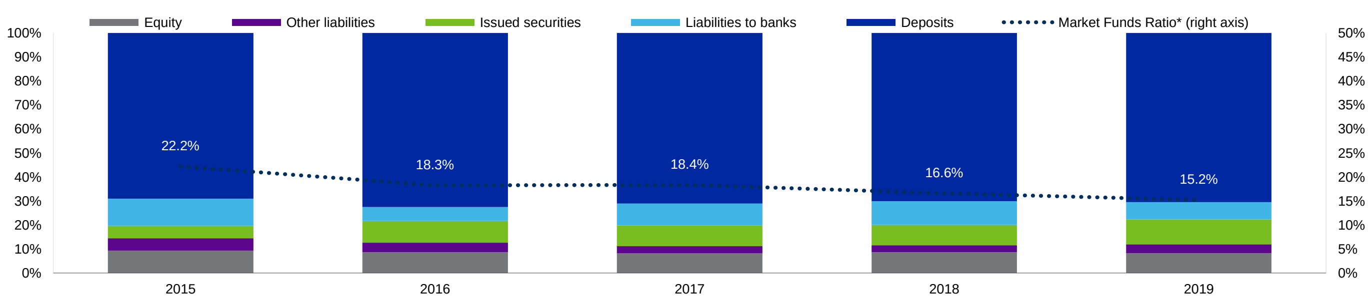
In June 2019, BAWAG received its first formal Minimum Requirement for own funds and Eligible Liabilities (MREL) from the Single Resolution Board (SRB). The MREL was set at 11.94% of Total Liabilities and Own Funds (TLOF) and prompted the bank to issue a €500 million inaugural senior non-preferred bond in August 2019.

In February 2020, BAWAG received a new MREL, which was set at 11.93% of TLOF, which translates to about 25.7% of RWA[6], and continues to be applicable at the consolidated level of BAWAG P.S.K. AG, the resolution entity under a single point of entry resolution strategy. The MREL decision now includes a subordination requirement set at 8.19% of TLOF (about 17.6% of RWA), of which up to 2.2% of RWA can be met with non-subordinated instruments. It also applies the "hybrid approach", restricting MREL eligibility to instruments issued by BAWAG P.S.K. AG only. The new MREL needs to be met by the second quarter 2023, and as of 31 March 2020, BAWAG had issued MREL-eligible instruments under the hybrid approach, amounting to 9.8% of TLOF, requiring the bank to issue an additional €1.0 to €1.5 billion in senior unsecured or junior senior unsecured debt by year-end 2022 (the subordination requirement is already met with 8.4% of TLOF). Since BAWAG communicated that it will close the MREL shortfall proactively on an accelerated basis, we believe that the bank will tap the funding markets in the form of MREL-eligible debt over the course of the next 12-18 months, which will reduce the relative share of retail deposits in the bank's funding profile.

Nonetheless, BAWAG's funding profile is expected to remain sound and well diversified. Following the integration of Suedwestbank, its customer deposit volume of €30.4 billion as of year-end 2019 now refinances around two-thirds of BAWAG's total assets. The bank's main funding sources are retail and, to a lesser extent, corporate deposits. In March 2017, BAWAG opportunistically took a €2.3 billion tranche in the ECB's targeted longer-term refinancing operations (TLTRO II), of which €1.75 billion was repaid during 2019. The bank partly replaced this funding with €1 billion of new covered bond issuances in 2019, while in the first quarter of 2020, BAWAG raised €0.5 billion via covered bonds and participated in a €1.25 billion LTRO. For 2020, BAWAG does not have any further funding requirements should conditions remain adverse.

Exhibit 8

BAWAG reduced its share of market funding over recent years



*Market funding ratio = Market funds/tangible banking assets

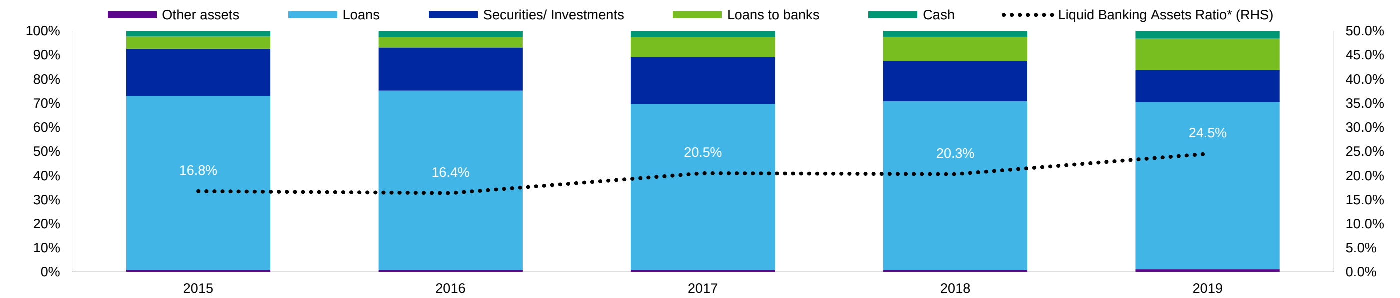
Source: Company reports, Moody's Investors Service

Solid level and quality of liquid resources

Our baa1 assigned Liquid Resources score is set in line with the initial score and captures the good underlying quality of the liquidity portfolio, as well as limited asset encumbrance.

For the purpose of calculating BAWAG's regulatory liquidity coverage ratio (LCR), which declined to 146% as of year-end 2019 from 179% as of year-end 2018, the bank's high-quality liquid assets consist overwhelmingly of highly liquid level 1 securities. The bank also discloses a liquidity buffer, which stood at €9.6 billion as of March 2020, down from €10.6 billion as of December 2019, and comprises BAWAG's central bank cash balances, unencumbered repo-eligible assets, and other marketable securities that can be liquidated within 30 days with minimal execution risk, incorporating a component-specific haircut. The bank's liquidity buffer calculation is closely aligned with our calculation of unencumbered liquid resources, which we deem adequate in light of the bank's current and future market funding requirements.

Exhibit 9
BAWAG's balance-sheet liquidity remains at solid level



*Liquid banking assets ratio = Liquid assets/tangible banking assets
Source: Company reports, Moody's Investors Service

Environmental, social and governance (ESG) considerations

In line with our general view on the banking sector, BAWAG has a low exposure to environmental risks (see our Environmental risks heat map[7] for further information).

For social risks, we also place BAWAG in line with our general view for the banking sector, which indicates a moderate exposure (see our Social risk heat map[8]). This includes considerations in relation to the rapid and widening spread of the coronavirus outbreak, given the substantial implications for public health and safety and deteriorating global economic outlook, creating a severe and extensive credit shock across many sectors, regions and markets. Furthermore, whereas BAWAG's increased activity in consumer lending results in higher margins than its residential mortgage lending products, consumer lending is also particularly exposed to challenges by consumer protection associations.

Governance is highly relevant for BAWAG, as it is to all participants in the banking industry. Governance risks are largely internal, rather than externally driven, and for BAWAG, we do not have any particular governance concern[9]. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Loss Given Failure analysis

BAWAG is subject to the Austrian Federal Act on the Recovery and Resolution of Banks (Sanierungs- und Abwicklungsgesetz – BaSAG), the transposal law of the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. We, therefore, apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution[10].

In our Advanced LGF analysis, we consider the results of both the formal legal position (pari passu, or 'de jure' scenario), to which we assign a 75% probability, and an alternative liability ranking, reflecting resolution authority discretion to prefer deposits over senior unsecured debt (full depositor preference, or 'de facto' scenario), to which we assign a 25% probability.

We further assume residual TCE of 3% and losses post failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits and a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions. In addition, we assume that only a small percentage (10%) of the deposit base can actually be considered junior and qualify as bail-in-able under the BaSAG. Finally, we take into account BAWAG's additional future funding requirements to cover its MREL shortfall.

The results of our Advanced LGF analysis are:

» For counterparty risk liabilities, our LGF analysis indicates an extremely low loss-given-failure, leading us to position their Preliminary Rating Assessments at a1, three notches above the baa1 Adjusted BCA.

» For deposits, senior unsecured debt and the bank's issuer ratings, our LGF analysis indicates a very low loss-given-failure, leading us to position their Preliminary Rating Assessments at a2, two notches above the baa1 Adjusted BCA.

» For junior senior and subordinated debt, our LGF analysis indicates a high loss-given-failure, leading us to position their Preliminary Rating Assessments at Baa2, one notch below the baa1 Adjusted BCA.

Additional notching for Additional Tier 1 (AT1) instruments

We assign a Ba1(hyb) rating to the €300 million AT1 notes issued by BAWAG Group. This rating is positioned three notches below BAWAG's baa1 Adjusted BCA. The rating reflects our assessment of the instruments' undated deeply subordinated claim in liquidation, the issuer's ability to redeem under certain conditions the securities at a level below par in case these have been affected by a write-down, as well as the securities' non-cumulative coupon deferral features. The securities' principal is subject to a partial or full write-down on a contractual basis if (1) BAWAG Group's CET1 ratio falls below 5.125%, (2) the issuer receives public support, or (3) the Austrian Financial Market Authority determines that the conditions for a full write-down of the instrument are fulfilled and orders such a write-down as a precautionary measure to prevent insolvency.

Government support considerations

For Austria, in contrast to other EU countries and reflective of government measures implemented since 2014, we assign a low level of support for the senior debt and deposit ratings of its banks. Hence, we also assess the probability of government support for BAWAG as low, despite the bank's solid national market shares (in terms of loans and deposits), as well as the bank's importance to the Austrian payment and clearing systems. As a consequence, government support does not benefit BAWAG's ratings.

Counterparty Risk Ratings

Counterparty Risk Ratings (CRR) are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

BAWAG's CRR are positioned at A1/P-1

The CRR are positioned three notches above the baa1 Adjusted BCA, reflecting the extremely low loss-given-failure from the high volume of instruments that are subordinated to CRR liabilities. BAWAG's CRR do not benefit from any rating uplift based on government support, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk Assessment

The Counterparty Risk Assessment (CR Assessment) is an opinion of how counterparty obligations are likely to be treated if a bank fails and is distinct from debt and deposit ratings in that it (1) considers only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and (2) applies to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

BAWAG's CR Assessment is positioned at A1(cr)/P-1(cr)

The bank's CR Assessment is positioned three notches above the baa1 Adjusted BCA based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, including junior deposits and senior unsecured debt. To determine the CR Assessment, we focus purely on subordination, taking no account of the volume of the instrument class. BAWAG's CR Assessment also does not benefit from any rating uplift based on government support, in line with our support assumptions on deposits and senior unsecured debt.

Methodology and scorecard

Methodology

The principal methodology we used in rating BAWAG was Banks Methodology published in November 2019.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 10

BAWAG Group AG

MACRO FACTORS						
WEIGHTED MACRO PROFILE **STRONG +**	**100%**					
FACTOR	**HISTORIC RATIO**	**INITIAL SCORE**	**EXPECTED TREND**	**ASSIGNED SCORE**	**KEY DRIVER #1**	**KEY DRIVER #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.7%	a3	←→	baa2	Sector concentration	Unseasoned risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	14.6%	a1	←→	a2	Expected trend	Capital retention
Profitability						
Net Income / Tangible Assets	0.9%	baa1	←→	baa1	Return on assets	Expected trend
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	15.2%	a3	←→	baa1	Extent of market funding reliance	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	24.5%	baa1	←→	baa1	Stock of liquid assets	Asset encumbrance
Combined Liquidity Score		a3		baa1		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aa1		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet is not applicable.

DEBT CLASS	DE JURE WATERFALL		DE FACTO WATERFALL		NOTCHING		LGF NOTCHING GUIDANCE VS. ADJUSTED BCA	ASSIGNED LGF NOTCHING	ADDITIONAL NOTCHING	PRELIMINARY RATING ASSESSMENT
	INSTRUMENT VOLUME + SUBORDINATION	SUB-ORDINATION	INSTRUMENT VOLUME + SUBORDINATION	SUB-ORDINATION	DE JURE	DE FACTO				
Counterparty Risk Rating	-	-	-	-	-	-	-	3	0	a1
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	a1 (cr)
Deposits	-	-	-	-	-	-	-	2	0	a2
Senior unsecured bank debt	-	-	-	-	-	-	-	2	0	a2
Junior senior unsecured bank debt	-	-	-	-	-	-	-	-1	0	baa2
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	baa2
Dated subordinated holding company debt	-	-	-	-	-	-	-	-1	0	baa2
Holding company non-cumulative preference shares	-	-	-	-	-	-	-	-1	-2	ba1

INSTRUMENT CLASS	LOSS GIVEN FAILURE NOTCHING	ADDITIONAL NOTCHING	PRELIMINARY RATING ASSESSMENT	GOVERNMENT SUPPORT NOTCHING	LOCAL CURRENCY RATING	FOREIGN CURRENCY RATING
Counterparty Risk Rating	3	0	a1	0	A1	
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	2	0	a2	0	A2	A2
Junior senior unsecured bank debt	-1	0	baa2	0	Baa2	
Dated subordinated bank debt	-1	0	baa2	0	Baa2	
Dated subordinated holding company debt	-1	0	baa2	0	Baa2	
Holding company non-cumulative preference shares	-1	-2	ba1	0	Ba1 (hyb)	

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 11

Category	Moody's Rating
BAWAG P.S.K.	
Outlook	Stable
Counterparty Risk Rating -Dom Curr	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured	A2
Junior Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa2
ST Issuer Rating	P-1
PARENT: BAWAG GROUP AG	
Subordinate -Dom Curr	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)

Source: Moody's Investors Service

Endnotes

1 Renamed start:bausparkasse in January 2019.

2 Renamed Health Coevo AG in July 2019.

3 Bawag's CET1 ratio requirement now comprises the 4.50% minimum requirement, the 2.50% capital conservation buffer, a 1.00% systemic risk buffer, a 0.19% countercyclical buffer, and a 1.12% Pillar 2 Requirement (P2R). While the P2R in terms of total capital remained unchanged at 2.00%, BAWAG can now fullfil its P2R with 1.12% CET capital and the remainder with Tier 1 and Tier 2 capital. This change in composition of the P2R was supposed to come into effect on 1 January 2021, but was brought forward during 1Q20 in order to free up CET1 capital to support the flow of credit to the real economy during the coronavirus crisis.

4 In the first quarter, BAWAG books 85% of its full-year regulatory costs, which amounted to €36 million in 1Q20 and €34 million in 1Q19, and which explains much of the seasonality.

5 BAWAG's management board also decided to waive any potential bonuses for 2020, after it already waived all bonuses for 2019.

6 Calculated as of 31 December 2018.

7 Environmental risks can be defined as environmental hazards encompassing the impact of air pollution, soil/water pollution, water shortages, and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, such as the impact of carbon regulation or other regulatory restrictions, including related transition risks such as policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

8 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, ageing population concerns in several countries affecting the demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.

9 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of banks' financial profiles. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Further, factors such as specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors, and dividend policy may be captured in individual adjustments to the BCA.

10 The resolution perimeter we assume at present comprises BAWAG's domestic Austrian operations only.

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