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CREDIT OPINION
17 February 2021

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

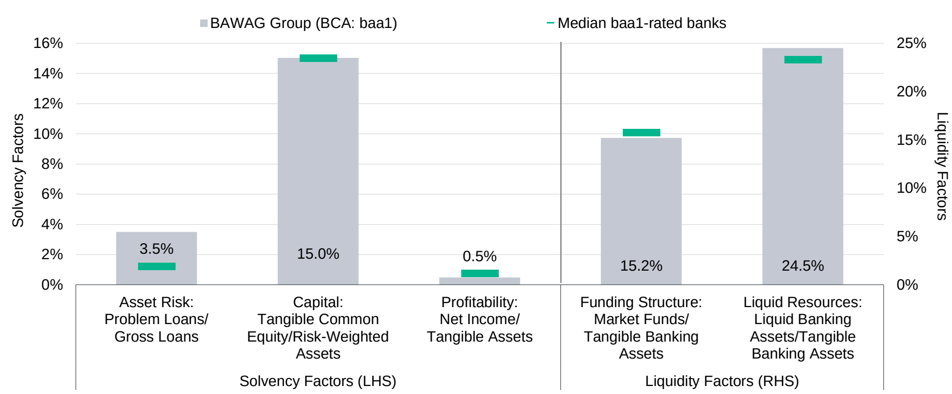
Summary

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

Exhibit 1
Rating Scorecard - Key financial ratios



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 and accordingly its ratings could result from a sizable and sustainable increase in the bank's capitalization and capital buffers to regulatory requirements; and 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 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 larger acquisitions that would significantly reduce BAWAG's capital ratios and result in material execution risks; execution and performance challenges related to the integration and management of acquired portfolios or banks; or 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]

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	50.5	44.7	44.5	45.8	39.3	7.5[4]
Total Assets (USD Billion)	56.7	50.2	50.9	55.0	41.4	9.4[4]
Tangible Common Equity (EUR Billion)	3.1	3.0	3.3	3.0	2.7	4.3[4]
Tangible Common Equity (USD Billion)	3.5	3.4	3.7	3.6	2.8	6.2[4]
Problem Loans / Gross Loans (%)	3.1	3.7	3.6	3.5	2.1	3.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.0	14.6	16.0	14.0	14.1	14.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	28.4	35.7	31.6	33.5	21.2	30.1[5]
Net Interest Margin (%)	1.9	2.0	1.9	1.9	2.0	1.9[5]
PPI / Average RWA (%)	2.8	3.3	2.9	2.2	2.5	2.7[6]
Net Income / Tangible Assets (%)	0.5	1.1	0.9	0.7	0.8	0.8[5]
Cost / Income Ratio (%)	54.3	49.3	49.1	56.5	56.3	53.1[5]
Market Funds / Tangible Banking Assets (%)	23.6	15.2	16.6	18.4	18.3	18.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	28.5	24.5	20.3	20.5	16.4	22.0[5]
Gross Loans / Due to Customers (%)	104.7	101.0	101.8	100.4	110.3	103.6[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 €53.1 billion of total assets as of year-end 2020 and employed about 3,700 full-time equivalent employees, serving approximately 2.3 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 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 pandemic is causing an unprecedented shock to the global economy and the full extent of the economic downswing will be unclear for some time. In Europe, the pandemic adds to late-cycle risks for banks and will weigh on banks' asset quality and profitability. We expect fiscal policy measures, as implemented by a variety of euro-area governments, to mitigate the economic contraction caused by the pandemic. However, in the current pandemic-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 with 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.

The European Central Bank (ECB) announced implemented a series of measures to help European Union (EU) economies weather the widening effects of the 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 favorable terms, as well as its financial asset purchase programme, while refraining from lowering the ultralow interest rates further. The temporary suspension of buffer requirements for regulatory capital and the liquidity coverage ratio (LCR) gives banks greater flexibility and additional leeway to absorb the economic impacts, such as asset-quality declines. Overall, the package aims to help the banks continue to finance corporates and small and medium-sized enterprises (SMEs) suffering from the effects of the pandemic. We believe that the ECB's measures will provide limited relief for banks and their borrowers, and that it will require significant fiscal policy measures by the EU and its member states to avert higher default rates in banks' lending books.

Austria announced implemented 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 our expectation of a higher level of problem loans throughout the credit cycle, in particular following the coronavirus crisis; concentration risks in cyclical lending areas, including commercial real estate; and the bank's repeated integration of new asset portfolios and subsidiaries.

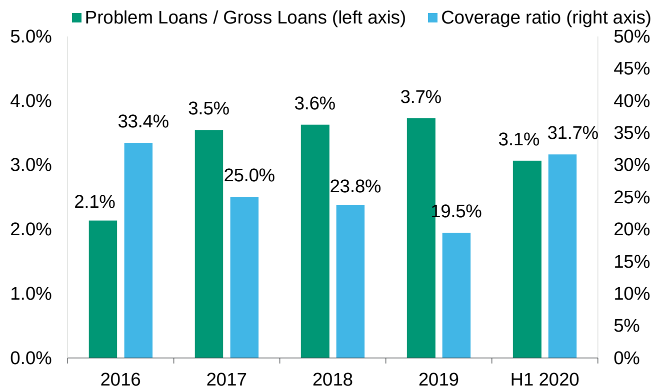
As of the end of June 2020, BAWAG's problem loan ratio stood at 3.1% (year-end 2019: 3.7%). Its €973 million of problem loans as of 30 June 2020 included a €284 million receivable (after a capital prudential filter) disputed by the City of Linz from a closed swap transaction, while its €1,145 million of problem loans as of 31 December 2019 included a €418 million gross receivable (value-adjusted to €254 million) related to the City of Linz legal case. BAWAG's problem loans for this case were lower as of 30 June 2020 due to the application of a capital prudential filter. The City of Linz receivable remained marked at 60% and assuming a worst-case scenario, the CET1 ratio impact would have been a negative 30 basis points as of 30 June 2020. Subsequently, management has announced during their 2020 earnings call that they have fully provided for the City of Linz exposure in prudential filters. On 7 January 2020, the Vienna-based court of first instance (Handelsgericht) had 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 €12.9 billion of domestic residential mortgage loans outstanding as of year-end 2020, which have been supplemented by two rundown mortgage portfolios in the UK and in France (€1.4 billion remaining balances). Another important pillar in BAWAG's domestic lending portfolio are its consumer lending and auto leasing activities, as well as lending to small and medium-sized enterprises (SME), which contributed €4.9 billion of exposures as of year-end 2020. In 2018, BAWAG had entered into several partnerships with large Austrian retailers to expand its footprint with retail customers through point-of-sale lending transactions, which has supported growth of its unsecured consumer lending book since then. As of 30 June 2020, 6.8%

of bank's retail and SME lending book was subject to payment holidays due to the coronavirus crisis, which has materially reduced to 1.2% as of 31 December 2020 and to 0.6% as of 5 February 2021 (the public payment moratorium expired on 31 January 2021 in Austria).

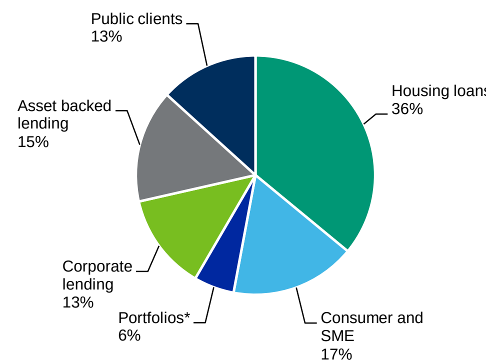
BAWAG adds non-retail exposures to its portfolio, in particular in the German-speaking corporates and real estate business, as well as in the international real estate and leveraged lending areas. In light of the strong competitive pressures that are unlikely to abate soon in the extended low interest 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 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. Of BAWAG's corporate and asset-backed lending book, 1.3% was subject to payment holidays as of 30 June 2020, which has reduced to 0.2% as of 5 February 2021.

Exhibit 3
BAWAG's problem loan ratio remained broadly stable in 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 loan book split by type
As of 30 September 2020



*Portfolios comprised primarily of UK and French performing mortgages
Source: Company reports, Moody's Investors Service

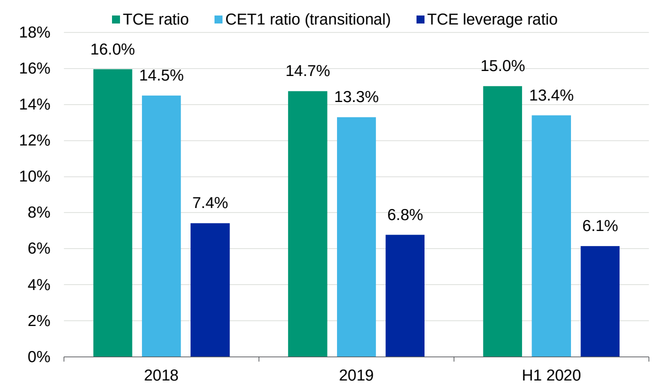
Solid capitalisation level is sustained, despite inorganic growth and return of funds to shareholders

We assign an a2 Capital score to BAWAG, two notches below the aa3 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 12.25%. 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 year-end 2020, the CET1 ratio, including an additional €230 million dividend accrual (€142 million, representing 50% of net profit in 2020, plus a €88 million special dividend), had increased to 16.3%, while excluding the dividend accrual, the CET1 ratio reached 14.0%[3], reflecting a 4.2% rise in CET1 capital and a 1.4% reduction in risk-weighted assets during 2020. The reported CET1 ratios were well above management's target and compared favourably with the bank's current regulatory CET1 ratio requirement of 9.1%, which was further lowered from 9.3% during 2Q20 as part of regulatory forbearance measures intended to support the economy during the coronavirus crisis[4].

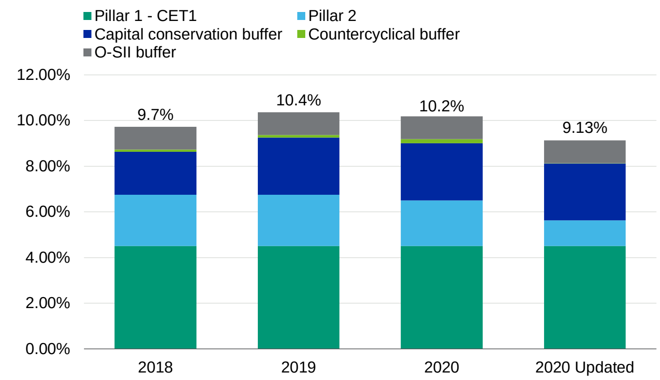
With a €300 million Additional Tier 1 (AT1) capital issuance in 2018, a €400 million Tier 2 subordinated debt sale in 2019, and a €175 million AT1 and €200 million Tier 2 issuance in the third quarter of 2020, BAWAG fully addresses its regulatory Tier 1 and total capital requirements. Upon the integration 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 at about 40%, where we expect it to remain as a result of offsetting pressures from regulatory changes and optimisation measures applied by BAWAG.

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

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

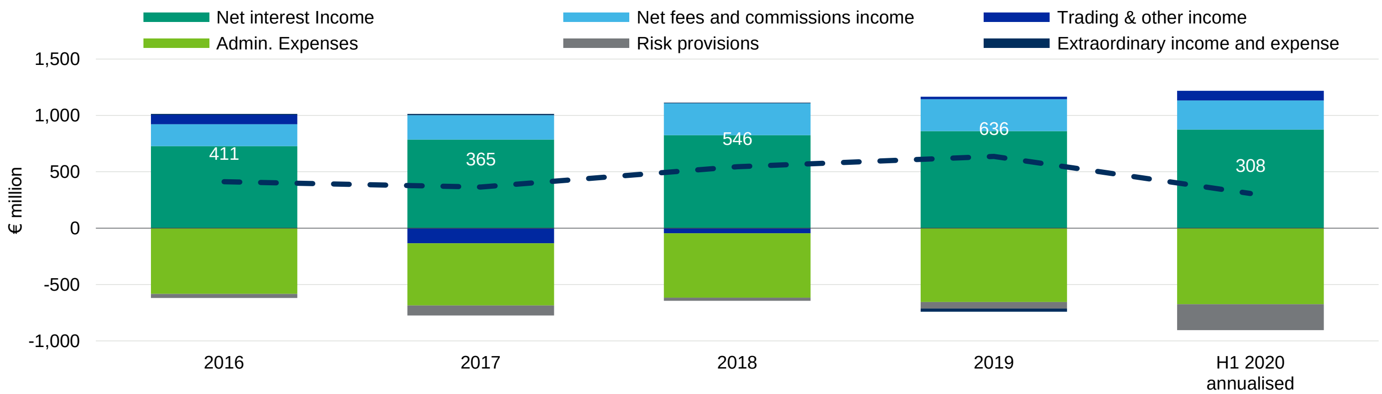
We assign a baa2 Profitability score, two notches above the ba1 initial score, which reflects BAWAG's return on assets during H1 2020. This positioning takes into account our forecast that the bank's profitability will recover again post the coronavirus crisis, balanced by our expectation that the cost of risk will normalise upwards from the benign levels seen prior to the pandemic and that 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. The bank 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 H1 2020, BAWAG's reported net interest margin of 2.28% 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 €438 million (H1 2019: €425 million), combined with €128 million in net fee and commission income (H1 2019: €143 million) and €55 million of other revenues (H1 2019: €55 million), continued to comfortably cover the bank's €337 million in operating expenses (H1 2019: €318 million) as well as loan-loss and other provisions of €130 million (H1 2019: €27 million). The net profit, according to our definition, thus reached €115 million in H1 2020 (H1 2019: 211 million), with the weaker result mostly driven by the deteriorated macroeconomic environment and expectation of future problem loan formation, which prompted BAWAG to record a general expected credit loss provision of €65 million in H1 2020[5].

In H2 2020, BAWAG reported a recovery in profitability with reported net income of €162 million compared with €122 million recorded in H1 2020[6]. The main driver was a lower cost of risk with loan loss provisions of €95 million recorded in H2 2020 (including €31 million of general expected credit loss provisions) compared with €130 million in H1 2020. The result would have even been better if BAWAG did not have to book a €12 million additional deposit insurance charge in relation to the Commerzialbank fraud in the third quarter. For 2021, BAWAG is currently guiding for 2% core revenue growth, a 3% decline in core operating costs, and a 40% reduction in loan loss provisions, which would lift reported net income, on our calculation, to about €390 million compared to the €284 million reported in 2020.

Exhibit 7
BAWAG's pre-tax profit significantly increased in the years prior to the pandemic
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.

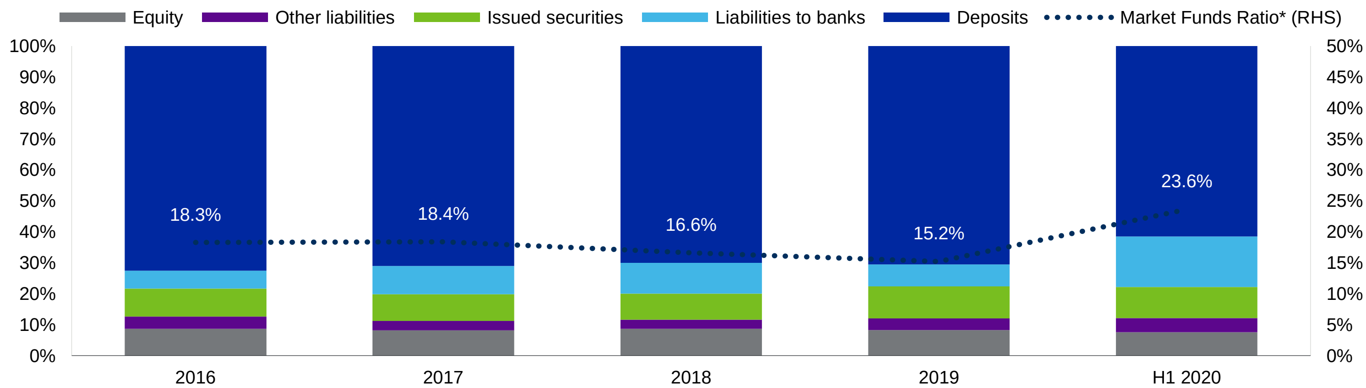
In February 2020, BAWAG received a new MREL, which was set at 11.93% of TLOF, which translated to about 25.7% of RWA[7], and continued to be applicable at the consolidated level of BAWAG P.S.K. AG, the resolution entity under a single point of entry (SPE) resolution strategy. The MREL decision now included a subordination requirement set at 8.19% of TLOF (about 17.6% of RWA). It also applied the “hybrid approach”, restricting MREL eligibility to instruments issued by BAWAG P.S.K. AG only.

In February 2021, BAWAG received its latest MREL, which continues to apply the SPE and hybrid approaches, but is now solely expressed in terms of RWA and no longer includes a subordination requirement. The new MREL decision now calls for MREL-eligible liabilities of 22% of RWA as of 1 January 2022 and 25.32% as of 1 January 2024. Including Suedwestbank, BAWAG already fulfills these requirement as of year-end 2020, but the bank is expected to issue an additional €1.0 to €1.5 billion in senior unsecured or junior senior unsecured debt by year-end 2023 to replace maturities and build a sufficient buffer for volume growth. 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 €32.4 billion as of year-end 2020 now refinances around 60% 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 2020, BAWAG raised €1.75 billion via covered bonds and participated in a €1.25 billion LTRO in the first quarter of 2020. In June 2020, BAWAG complemented this funding with a €5.8 billion TLTRO III drawdown, repaying the remaining €0.6 billion of TLTRO II funds at the same time[8]. Hence, as of June and December 2020, 11% of the bank's balance sheet was refinanced with TLTRO III funds, which was also visible in our market funding ratio, which increased to 23.6% from 15.2% during H1 2020. Since the TLTRO III funds will be repaid again over the next three years and mostly represent a carry trade opportunity for banks, we deem this increase in market funding to be of temporary nature and, hence, do not adjust our assigned Funding Structure score accordingly.

Exhibit 8

BAWAG's market funds increased recently after a period of gradual decline



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

Solid level and quality of liquid resources

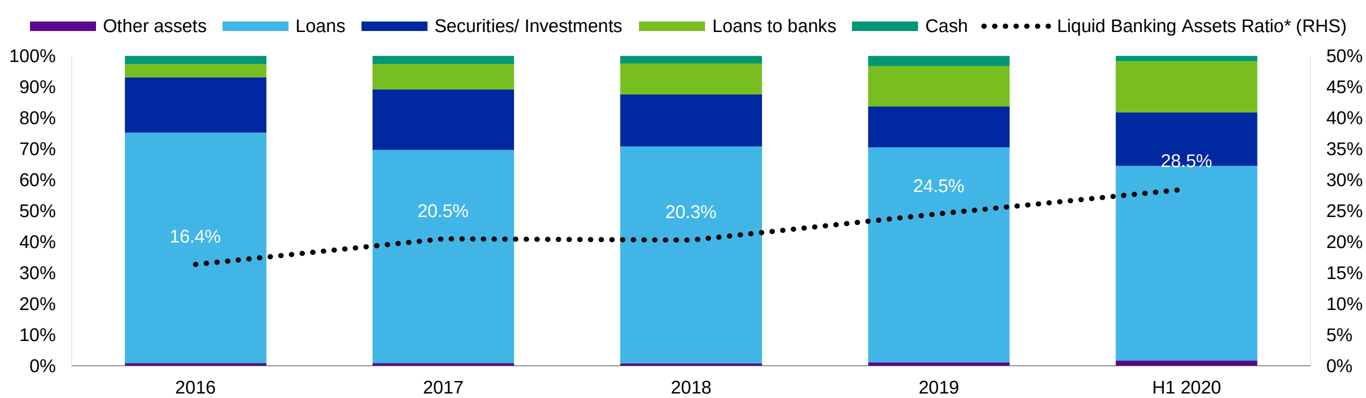
Our baa1 assigned Liquid Resources score is set in line with the initial score and captures the good underlying quality of the liquidity portfolio, as well as limited asset encumbrance.

For the purpose of calculating BAWAG's regulatory liquidity coverage ratio (LCR), which improved to 231% as of year-end 2020 from 146% as of year-end 2019, 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 €13.7 billion as of year-end 2020, up from €10.6 billion as of year-end 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.

The increase in the bank's liquidity position in H1 2020 was driven by BAWAG's participation in the TLTRO III, which increased our calculation of liquid banking assets by €3.4 billion, with interbank loans up by €2.5 billion and the bank's securities portfolio up by €1.5 billion, while cash and central bank balances were reduced by €0.6 billion. Since the TLTRO funds will have to be repaid over the next three years, the bank's liquidity buffer is also expected to decline again, and we, therefore, do not reflect the increased liquid banking assets ratio in our assigned score.

Exhibit 9

BAWAG's balance-sheet liquidity remains solid



*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[9] 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[10]). 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[11]. Governance risks are largely internal, rather than externally driven, and for BAWAG, we do not have any particular governance concern. 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[12].

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	3.5%	a3	↔	baa2	Sector concentration	Unseasoned risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	15.0%	aa3	↓	a2	Expected trend	Capital retention
Profitability						
Net Income / Tangible Assets	0.5%	ba1	↑	baa2	Expected trend	Return on assets
Combined Solvency Score		a3		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	15.2%	a3	↓	baa1	Expected trend	Extent of market funding reliance
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	ASSIGNED	ADDITIONAL	PRELIMINARY
	INSTRUMENT VOLUME + SUBORDINATION	SUB-ORDINATION	INSTRUMENT VOLUME + SUBORDINATION	SUB-ORDINATION	DE JURE	DE FACTO	NOTCHING GUIDANCE VS. ADJUSTED BCA	LGF NOTCHING	NOTCHING	RATING ASSESSMENT
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 had postponed its 2020 Annual General Meeting to 30 October 2020, which decided that the 2019 dividend should be carried forward and potentially be distributed in 2021. The ECB has now provided approval for €40 million of dividends to be distributed in the first quarter of 2021, while the remaining €420 million of accrued dividends can potentially be paid out in the fourth quarter 2021, subject again to shareholder and ECB approval.

4 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 0.01% countercyclical buffer, and a 1.13% Pillar 2 Requirement (P2R). While the P2R in terms of total capital remained unchanged at 2.00%, BAWAG can now fullfil its P2R with 1.13% 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.

5 BAWAG also had to record €16 million of specific loan loss provisions for oil and gas exposures in H1 2020.

6 In the first quarter, BAWAG books 85% of its full-year regulatory costs, which amounted to €36 million in 1Q20 and normally results in a pronounced seasonality of earnings.

7 Calculated as of 31 December 2018.

8 BAWAG will potentially draw down another €0.6 billion of TLTRO III funds in the first quarter of 2021.

9 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.

10 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.

11 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.

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

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