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CREDIT OPINION
23 July 2021

Update

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RATINGS

BAWAG P.S.K. AG

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. AG

Update following rating action and methodology revision

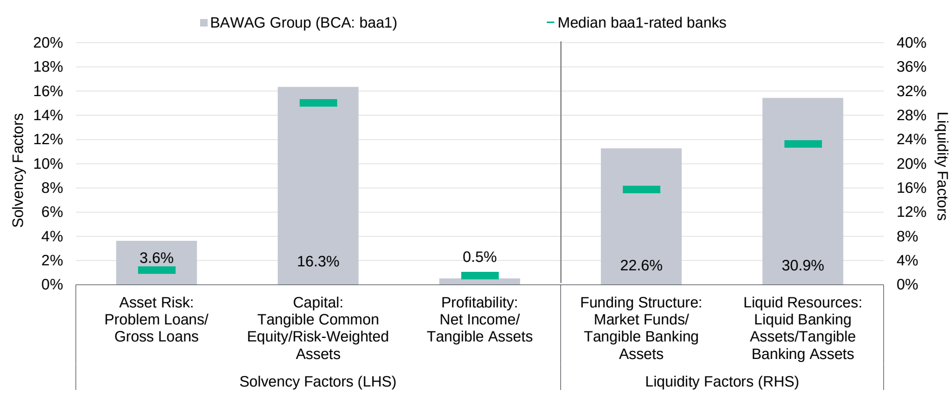
Summary

On 13 July 2021, we upgraded the junior senior unsecured debt rating of BAWAG P.S.K. AG (BAWAG) to Baa1 from Baa2. We continue to assign A2(stable)/P-1 deposit and issuer ratings and A2(stable) senior unsecured debt ratings to BAWAG. Furthermore, we continue to assign a baa1 Baseline Credit Assessment (BCA) and baa1 Adjusted BCA, as well as a Baa2 subordinated debt rating 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 the application of our Advanced Loss Given Failure (LGF) analysis to the bank's liabilities, which indicates a very low loss-given-failure and results in two notches of rating uplift. 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 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]

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	52.0	44.7	44.5	45.8	39.3	7.3[4]
Total Assets (USD Billion)	63.6	50.2	50.9	55.0	41.4	11.3[4]
Tangible Common Equity (EUR Billion)	3.3	3.0	3.3	3.0	2.7	5.1[4]
Tangible Common Equity (USD Billion)	4.0	3.4	3.7	3.6	2.8	9.1[4]
Problem Loans / Gross Loans (%)	3.5	3.7	3.6	3.5	2.1	3.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.3	14.6	16.0	14.0	14.1	15.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	31.0	35.7	31.6	33.5	21.2	30.6[5]
Net Interest Margin (%)	1.8	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 (%)	54.6	49.3	49.1	56.5	56.3	53.2[5]
Market Funds / Tangible Banking Assets (%)	22.6	15.2	16.6	18.4	18.3	18.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	30.9	24.5	20.3	20.5	16.4	22.5[5]
Gross Loans / Due to Customers (%)	99.9	101.0	101.8	100.4	110.3	102.7[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. In addition, BAWAG announced on 15 February 2021 that it is acquiring the Irish wind-down bank and public-sector lender DEPFA BANK plc (DEPFA, A2 stable/A2 stable, baa3[3]), with the deal expected to close in the second half of 2021. Finally, the acquisition of Hello bank! Austria was announced on 22 July 2021.

BAWAG Group held €53.1 billion of total assets as of year-end 2020 and employed about 3,500 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 86 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

All G-20 countries, including Austria, experienced severe output losses in 2020, but the contraction in some economies was sharper than in others. The European Central Bank (ECB) introduced a series of measures to help the 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 longer-term refinancing operations (TLTRO III) under more favourable terms, as well as its financial asset purchase programme, while refraining from lowering the ultralow interest rates further.

Austria implemented a large stimulus package that complemented the ECB's supportive policy actions. The Austrian government launched emergency corporate lending guarantee programmes and expanded short-time work subsidies. The measures added to automatic stabilisers that support household incomes when unemployment increases. These policy measures have softened the negative economic effects of the pandemic, but might not fully mitigate the credit-negative operational effects that all the G-20 countries have sustained.

On 15 February, BAWAG announced that it had reached a definitive agreement to buy the wind-down bank and public-sector lender DEPFA from FMS Wertmanagement (FMS-WM, Aaa stable), a winding-up institution indirectly owned by the Government of Germany (Aaa stable). We view the acquisition as credit positive because it is capital accretive, enabling BAWAG to leverage its balance sheet capacity and utilize its existing infrastructure to wind down DEPFA's portfolio of remaining public-sector assets in a cost-efficient way. For more information, please see our Issuer Comment on the acquisition.

On 22 July, BAWAG announced the signing of a transaction to acquire Hello bank! Austria from BNP Paribas (Aa3 stable/Aa3 stable, baa1[4]). Hello bank! Austria offers retail brokerage services, servicing 80,000 customers in Austria with €8 billion in assets under management. The bank will continue to operate under the easybank brand, thereby complementing BAWAG's existing direct banking franchise.

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.

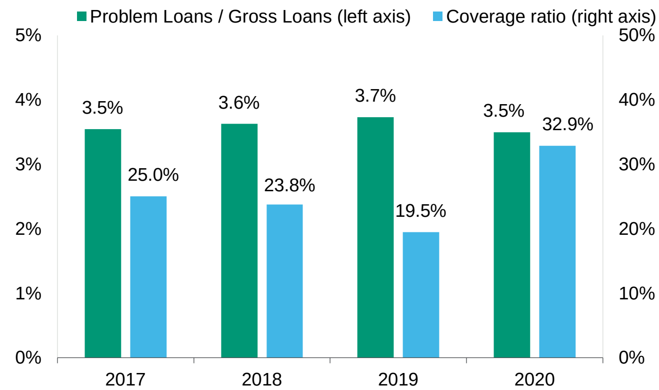
As of year-end 2020, BAWAG's problem loan ratio stood at 3.5% (year-end 2019: 3.7%). Its €1,132 million of problem loans as of 31 December 2020 included an approximately €400 million gross receivable (€254 million net receivable on the balance sheet) disputed by the City of Linz from a closed swap transaction. In 2020, BAWAG has fully provided for the City of Linz exposure through capital prudential filters, which reduced the CET1 ratio by 60 basis points (the City of Linz receivable remains marked at 60% on the balance sheet). 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 during 2018 and 2019 (in 2020, the coronavirus crisis resulted in a decline in consumer lending balances). 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 31 March 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 0.4% as of 31 December 2020 and to 0.1% as of 31 March 2021.

Exhibit 3

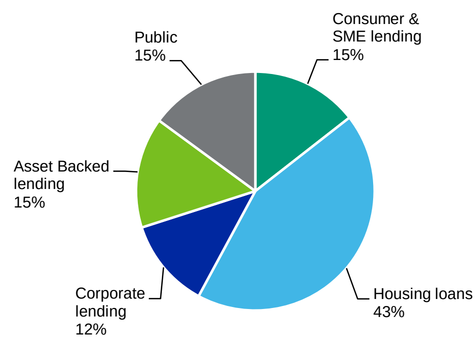
BAWAG's problem loan ratio remained broadly stable in recent years



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

Exhibit 4

BAWAG's loan book split by type
As of 31 December 2020



Source: Company reports, Moody's Investors Service

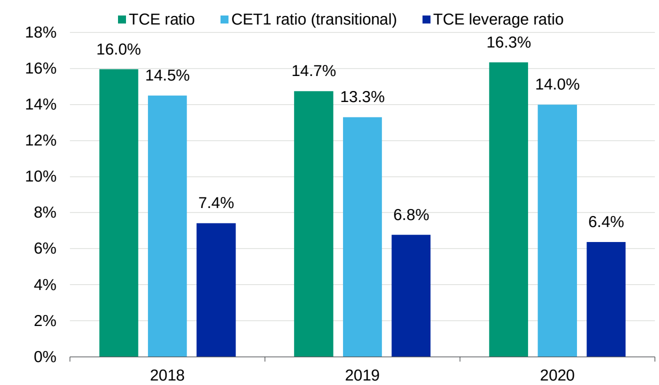
Solid capitalisation level is sustained, despite inorganic growth and return of funds to shareholders

We assign an a2 Capital score to BAWAG, three notches below the aa2 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%. As of year-end 2020, the CET1 ratio, including a €460 million dividend accrual, stood at 16.3%, while excluding the dividend accrual, the CET1 ratio reached 14.0%[5], reflecting a 3.8% rise in CET1 capital and a 1.5% reduction in risk-weighted assets during 2020. In the first quarter 2021, the pre-dividend CET1 ratio improved further to 16.5%, while the post-dividend CET1 ratio reached 14.2%, incorporating a further €37 million dividend accrual. The reported CET1 ratios were well above management's target and compared favourably with the bank's current regulatory CET1 ratio requirement of 9.14%[6], which rises to 10.14% when including the 1% Pillar 2 Guidance. In 2022 and beyond, we expect BAWAG's CET1 ratio to move closer again to the 12.25% target level either through dividend payments, a new share buyback program[7], or due to further M&A deals.

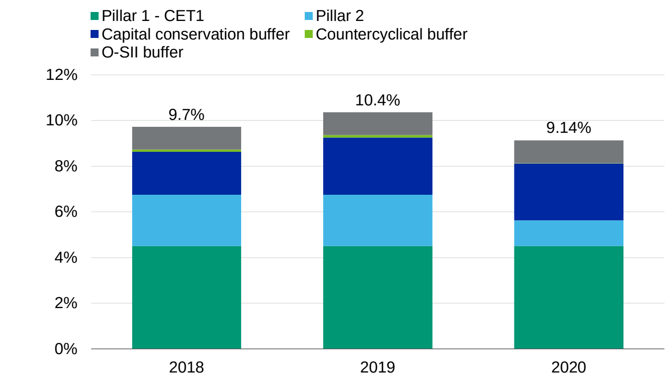
With a €300 million Additional Tier 1 (AT1) capital issuance in 2018, a €400 million Tier 2 subordinated debt sale in 2019, and a €175 million AT1 and €200 million Tier 2 issuance in the third quarter of 2020, BAWAG fully addresses its regulatory Tier 1 and total capital requirements. Upon the integration 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

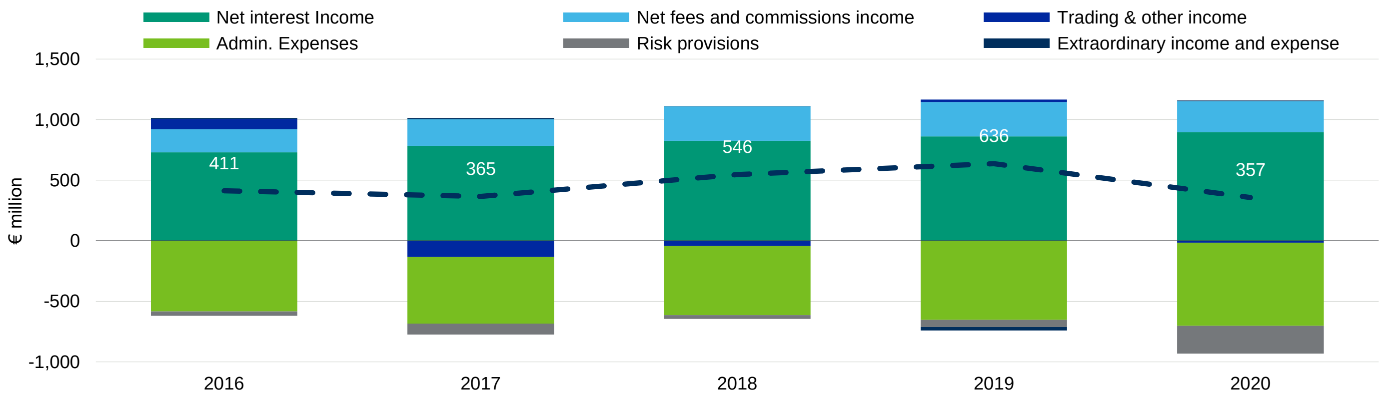
We assign a baa2 Profitability score, in line with the initial score, which reflects BAWAG's return on assets during 2020. This positioning takes into account our forecast that the bank's profitability will recover again post the coronavirus crisis, balanced by our expectation that the cost of risk will 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 86 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 2020, BAWAG's reported net interest margin of 2.29% 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 €899 million (2019: €860 million), combined with €255 million in net fee and commission income (2019: €284 million) and €102 million of other revenues (2019: €184 million), continued to comfortably cover the bank's €686 million in operating expenses (2019: €654 million) as well as loan-loss and other provisions of €210 million (2019: €71 million). The net profit, according to our definition, thus reached €271 million in 2020 (2019: 480 million), with the weaker result mostly driven by the deteriorated macroeconomic environment and expectation of future problem loan formation, which prompted BAWAG to record expected credit loss and general provisions of €100 million (of which €38 million represented a management overlay) in 2020[8].

In 1Q 2021, BAWAG reported a recovery in profitability with reported net income of €74 million compared with €61 million recorded in 1Q 2020. The main driver was a lower cost of risk with loan loss provisions of €29 million recorded in 1Q 2021 compared with €55 million booked in 1Q 2020, which was partly offset, though, by higher regulatory costs of €54 million in 1Q 2021 versus €36 million in 1Q 2020[9]. For 2021, BAWAG is currently guiding for 2% core revenue growth, a 7% decline in operating costs, flat regulatory costs, and a >40% reduction in loan loss provisions, which would lift reported net income, on our calculation, to about €400 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

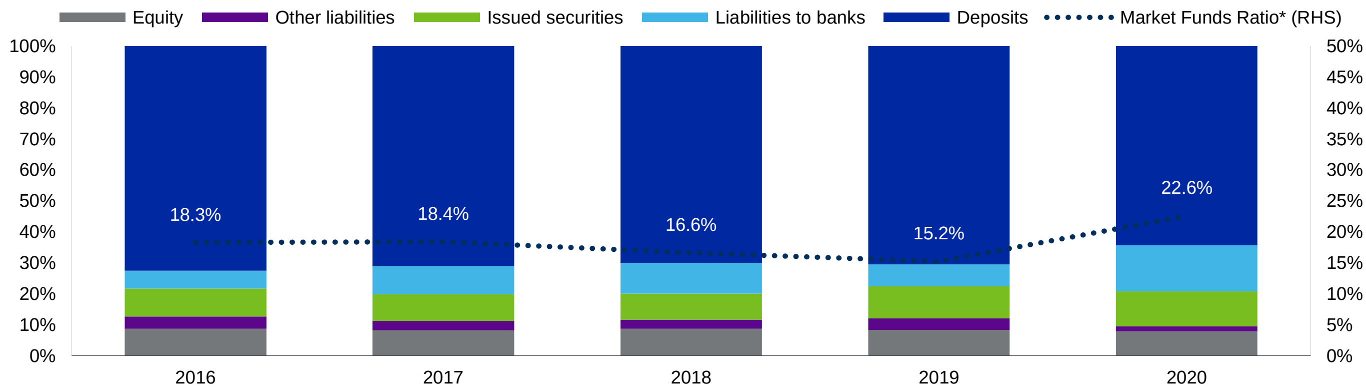
Strong access to stable retail deposits supports BAWAG's funding profile

Our baa1 assigned Funding Structure score is positioned in line with the initial score, reflecting that the bank's reliance on market funding sources will increase due to regulatory requirements, which will likely be offset, though, by the repayment of TLTRO III funds.

In February 2021, BAWAG received its latest Minimum Requirement for own funds and Eligible Liabilities (MREL), which continues 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. It also continues to apply the “hybrid approach”, restricting MREL eligibility to instruments issued by BAWAG P.S.K. AG only. The MREL is now solely expressed in terms of RWA rather than in terms of Total Liabilities and Own Funds (TLOF) 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 fulfilled 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 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. Finally, in the first quarter of 2021, BAWAG drew down another €0.6 billion of TLTRO III funds for a total of €6.4 billion. Hence, as of December 2020 and March 2021, 11% and 12% of the bank's balance sheet was refinanced with TLTRO III funds, respectively, which was also visible in our market funding ratio, which increased to 22.6% from 15.2% during 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 following TLTRO III drawdowns after a period of gradual decline



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

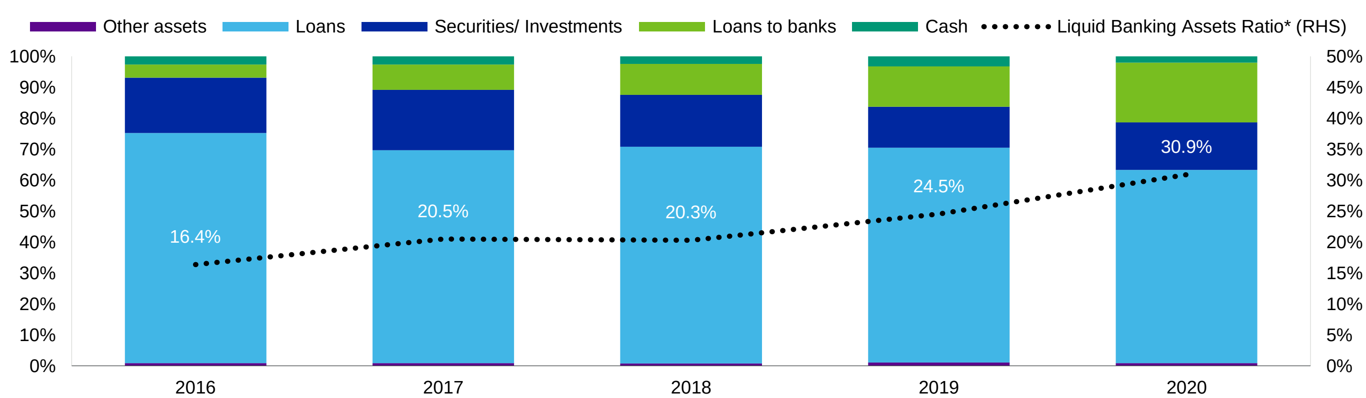
Solid level and quality of liquid resources

Our baa1 assigned Liquid Resources score is set two notches below the a2 initial score, reflecting some limited asset encumbrance and our expectation that liquidity will decline again following the repayment of TLTRO III funds.

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 2020 was driven by BAWAG's participation in the TLTRO III, which increased our calculation of liquid banking assets by €5.1 billion, with interbank loans up by €4.2 billion and the bank's securities portfolio up by €1.3 billion, while cash and central bank balances were reduced by €0.4 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 has improved due to TLTRO III drawings



*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[10] 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[11]). This includes considerations in relation to the coronavirus outbreak, given the substantial implications for public health and safety and the severe and extensive credit shock the pandemic has caused across many sectors, regions and markets. Furthermore, BAWAG's activity in consumer lending expose the bank to challenges by consumer protection associations.

Governance is highly relevant for BAWAG, as it is to all participants in the banking industry[12]. 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[13].

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 unsecured debt, our LGF analysis indicates a moderate loss-given-failure, leading us to position its Preliminary Rating Assessment at Baa1, in line with the baa1 Adjusted BCA.

» For subordinated debt, our LGF analysis indicates a high loss-given-failure, leading us to position its Preliminary Rating Assessment 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 and €175 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 (CRR)

BAWAG's CRR is A1/P-1

The CRR is 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 does not benefit from any rating uplift based on government support, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment

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

The bank's CR Assessment is 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. 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.

Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than the expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we used in rating BAWAG was Banks Methodology published in July 2021.

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	3.6%	a3	↔	baa2	Sector concentration	Unseasoned risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	16.3%	aa2	↔	a2	Expected trend	Capital retention
Profitability						
Net Income / Tangible Assets	0.5%	baa2	↔	baa2	Expected trend	Return on assets
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	22.6%	baa1	↔	baa1	Expected trend	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	30.9%	a2	↔	baa1	Expected trend	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	IN-SCOPE (EUR MILLION)	% IN-SCOPE	AT-FAILURE (EUR MILLION)	% AT-FAILURE
Other liabilities	15,068	29.3%	17,242	33.5%
Deposits	31,057	60.4%	28,883	56.1%
Preferred deposits	27,951	54.3%	26,554	51.6%
Junior deposits	3,106	6.0%	2,329	4.5%
Senior unsecured bank debt	2,061	4.0%	2,061	4.0%
Junior senior unsecured bank debt	500	1.0%	500	1.0%
Dated subordinated bank debt	150	0.3%	150	0.3%
Dated subordinated holding company debt	600	1.2%	600	1.2%
Preference shares(holding company)	475	0.9%	475	0.9%
Equity	1,544	3.0%	1,544	3.0%
Total Tangible Banking Assets	51,455	100.0%	51,455	100.0%

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	14.9%	14.9%	14.9%	14.9%	3	3	3	3	0	a1
Counterparty Risk Assessment	14.9%	14.9%	14.9%	14.9%	3	3	3	3	0	a1 (cr)
Deposits	14.9%	6.4%	14.9%	10.4%	2	3	2	2	0	a2
Senior unsecured bank debt	14.9%	6.4%	10.4%	6.4%	2	1	2	2	0	a2
Junior senior unsecured bank debt	6.4%	5.4%	6.4%	5.4%	0	0	0	0	0	baa1
Dated subordinated bank debt	5.4%	3.9%	5.4%	3.9%	-1	-1	-1	-1	0	baa2
Dated subordinated holding company debt	5.4%	3.9%	5.4%	3.9%	-1	-1	-1	-1	0	baa2
Holding company non-cumulative preference shares	3.9%	3.0%	3.9%	3.0%	-1	-1	-1	-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	0	0	baa1	0	Baa1	
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. AG	
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	Baa1
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 The ratings shown are DEPFA's deposit rating and outlook, its senior unsecured rating and outlook, and its Baseline Credit Assessment.

4 The ratings shown are BNP Paribas' deposit rating and outlook, its senior unsecured rating and outlook, and its Baseline Credit Assessment.

5 The ECB 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.

6 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 0.02% countercyclical buffer, and a 1.13% Pillar 2 Requirement (P2R).

7 In the fourth quarter of 2019, the group had finalised the execution of a share buyback programme worth €400 million (11% of outstanding shares).

8 BAWAG also had to record €49 million of specific loan loss provisions for oil and gas exposures in 2020.

9 In 1Q 2021, BAWAG booked 90% of its expected full-year regulatory costs, with the year-on-year increase reflecting the Commerzialbank case in Austria and increased balance sheet size.

10 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.

11 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.

12 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.

13 Following the merger between BAWAG and Südwestbank AG consumed in February 2021, which resulted in Südwestbank becoming a branch of BAWAG, we now assume that the resolution perimeter comprises the entire BAWAG Group rather than BAWAG's domestic Austrian operations only (the size of BAWAG's remaining foreign subsidiaries is de minimis).

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