MOODY'S INVESTORS SERVICE

CREDIT OPINION
14 March 2023

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	Positive
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

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 outlook change to positive

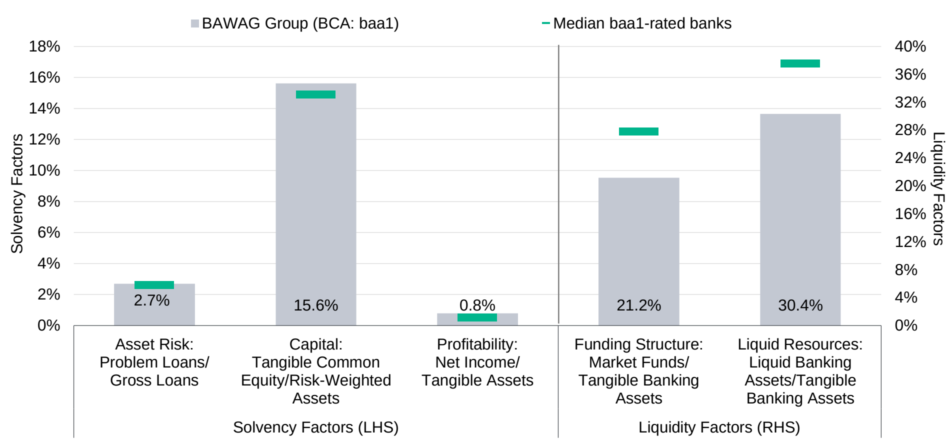
Summary

On 24 February 2023, we affirmed the A2 deposit, issuer, and senior unsecured ratings of BAWAG P.S.K. AG (BAWAG) and changed their outlook to positive from stable. Concurrently, we also affirmed BAWAG's baa1 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as its Baa1 junior senior unsecured rating and its Baa2 subordinate rating.[1]

BAWAG's A2 deposit, issuer, and senior unsecured ratings reflect its baa1 BCA and Adjusted BCA, and two notches of rating uplift from our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class. 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 and the bank's solid capitalisation, which provides a sufficient safety buffer against a potential asset quality weakening related to unsecured consumer and corporate lending as well as commercial real estate exposures amid a deteriorating operating environment. BAWAG's BCA also factors in its strong deposit funding base and still adequately sized liquid resources.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Investors Service and company filings

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

» Sizeable unsecured consumer and corporate lending as well as commercial real estate exposures could result in higher problem loan formation than seen in recent years.

» Repeated M&A and tactical asset investments in more concentrated non-retail portfolios create execution risks despite a good track record of integrating acquisitions.

» Liquid resources are expected to decline following the repayment of central bank funds (TLTRO III).

Outlook

» The positive outlook reflects our view that BAWAG's BCA and Adjusted BCA, and hence its long-term ratings, could be upgraded if BAWAG is able to maintain its current asset quality metrics and reach a sustainably higher profitability level, while preserving its sound capitalisation and combined liquidity profile. We also consider that BAWAG will maintain sufficient volumes of bail-in-able liabilities safeguarding the currently assigned rating uplift resulting from our Advanced LGF analysis.

Factors that could lead to an upgrade

» An upgrade of BAWAG's and BAWAG Group's long-term ratings could result from an upgrade of BAWAG's baa1 BCA and Adjusted BCA. An upgrade of select ratings could also be triggered by additional rating uplift as a result of our Advanced LGF analysis.

» BAWAG's BCA and Adjusted BCA could be upgraded if the bank's problem loan formation remains contained in the more challenging economic environment and if its profitability improves materially and sustainably, while the bank's capitalisation, funding, and liquidity profiles remain sound.

» BAWAG's deposit, senior unsecured, issuer, junior senior unsecured, and subordinate ratings may also be upgraded if the volume of debt instruments designed to absorb losses prior to the respective debt classes increases sufficiently in relation to the bank's tangible banking assets, which could result in additional rating uplift resulting from our Advanced LGF analysis.

Factors that could lead to a downgrade

» A downgrade of BAWAG's ratings is currently unlikely but could be triggered following a downgrade of the bank's baa1 BCA and Adjusted BCA, or as a result of fewer notches of rating uplift from our Advanced LGF analysis.

» The bank's BCA could be downgraded because of a pronounced decline in the quality of BAWAG's investment and loan portfolios, or because of integration risks materializing from the bank's acquisitions. In addition, levels of capital and earnings substantially below our expectations, as well as a higher-than-expected reliance on market funding and materially lower liquid resources, could trigger a downgrade of the BCA.

» BAWAG's deposit, senior unsecured, issuer, and junior senior unsecured ratings could be downgraded if the combined volume of debt instruments designed to absorb losses prior to the respective debt classes declines sufficiently, which would lead to lower rating uplift from our Advanced LGF analysis. A lower volume of outstanding senior unsecured instruments could also lead to lower rating uplift for the bank's deposit, senior unsecured, and issuer ratings.

Key indicators

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

	06-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	55.0	56.3	52.0	44.7	44.5	6.2[4]
Total Assets (USD Billion)	57.5	63.8	63.6	50.2	50.9	3.6[4]
Tangible Common Equity (EUR Billion)	3.3	3.3	3.3	3.0	3.3	0.6[4]
Tangible Common Equity (USD Billion)	3.5	3.7	4.0	3.4	3.7	(2.0)[4]
Problem Loans / Gross Loans (%)	2.5	2.6	2.8	2.9	3.6	2.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.6	16.4	16.3	14.6	16.0	15.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	25.0	24.8	25.1	27.3	31.6	26.8[5]
Net Interest Margin (%)	1.7	1.7	1.8	2.0	1.9	1.8[5]
PPI / Average RWA (%)	3.3	3.1	2.8	3.3	2.9	3.1[6]
Net Income / Tangible Assets (%)	0.8	0.8	0.5	1.1	0.9	0.8[5]
Cost / Income Ratio (%)	49.6	55.2	54.6	49.3	49.1	51.5[5]
Market Funds / Tangible Banking Assets (%)	21.7	21.2	22.8	15.6	17.5	19.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	24.9	30.4	29.7	24.5	20.3	26.0[5]
Gross Loans / Due to Customers (%)	112.2	100.6	100.7	101.0	101.8	103.3[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[2], Deutscher Ring Bausparkasse[3] in 2018, and BFL Leasing GmbH and EOS Health Honorarmanagement AG[4] 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 acquired the Irish wind-down bank and public-sector lender DEPFA BANK plc and the retail broker Hello bank! Austria in 2021[5]. In February 2022, BAWAG Group also signed an agreement to buy Peak Bancorp, Inc., the holding company for Idaho First Bank, a state-chartered community bank. The acquisition, which is still subject to regulatory approval, will add around €0.5 billion to the group's balance sheet and will enable the bank to increase its footprint in the US market. Finally, BAWAG acquired the German consumer loan portfolio as well as a bond portfolio with a combined book value of €0.7 billion of defunct Sberbank Europe AG in the second quarter of 2022[6].

As of 31 December 2022, BAWAG Group held €56.5 billion of total assets and employed approximately 2,850 full-time equivalent employees, serving approximately 2.1 million customers. BAWAG's former cooperation agreement with Österreichische Post AG (Austrian Post) ended in 2019 and the bank now serves its clients in Austria out of its 61 proprietary branches. In Germany, Südwestbank operates its 11 branches in the Land of Baden-Wuerttemberg (Aaa stable).

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

Weighted Macro Profile of Strong (+)

As of 30 June 2022, 71% of BAWAG's combined lending and securities portfolio derived from Austria, Germany, the Netherlands, and Switzerland, while other Western European countries accounted for 13%, North America for 12%, and other countries for 4%. The weighted average of these exposures results in a Strong (+) Weighted Macro Profile for BAWAG, in line with the Strong (+) Macro Profile of Austria.

Detailed credit considerations

Solid asset quality, but risks from unsecured consumer and corporate lending as well as from commercial real estate

We assign a baa2 Asset Risk score to BAWAG, three notches below the a2 initial score. The adjustment reflects our expectation of a higher level of problem loan formation than in recent years given the deteriorated credit environment; concentration risks in cyclical lending areas, including commercial real estate; and the bank's repeated integration of new asset portfolios and subsidiaries.

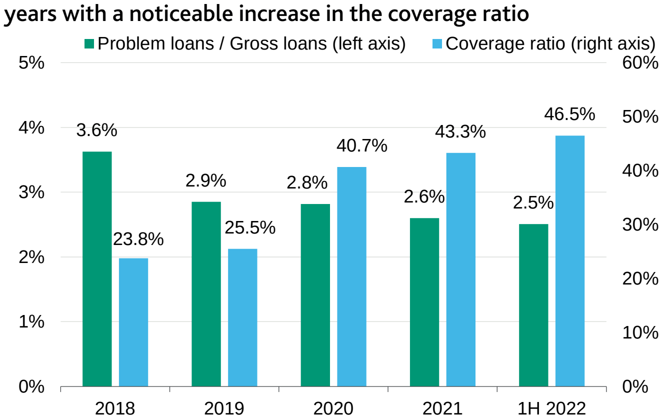
As of 30 June 2022, BAWAG's problem loan ratio stood at 2.5%, slightly down from 2.6% as of year-end 2021. Its €944 million of problem loans as of 30 June 2021 still included a €254 million net receivable[7] disputed by the City of Linz from a closed swap transaction. On 29 August 2022, the Austrian Supreme Court ruled in favor of the City of Linz, which prompted BAWAG to write-off its €254 million balance sheet receivable, which led to a net loss in the third quarter of 2022. However, since BAWAG had already fully provided for the City of Linz exposure through capital prudential filters in 2020, the bank's capital position and management's capital distribution plans were not negatively impacted by the write-down. With the final judgment on the validity of the contract, no decision has yet been reached with regards to the amount of mutual claims tied to the swap contract, with BAWAG likely pursuing damage claims against the City of Linz in the absence of a reasonable settlement.

BAWAG focuses on retail banking operations in its core markets Austria, Germany, Switzerland, and the Netherlands (DACH/NL), as well as other selected Western European markets. As of 31 December 2022, the bank's residential mortgage book amounted to €16.0 billion, of which 94% was sourced from the DACH/NL region. The bank's housing loan portfolio has only created de minimis risk costs in the past, which is expected to continue in the future, since 24% of loans are benefitting from a state or insurance guarantee and the weighted average loan-to-value (LTV) ratio of the non-guaranteed book stands at 63%.[8] BAWAG supplants these low-risk exposures with €3.5 billion of higher-risk consumer loans, €1.7 billion of primarily auto leasing and factoring receivables, €0.5 billion of loans extended to small and medium-sized enterprises (SME), and €0.6 billion of overdraft and other card receivables. While default rates at present are still below the levels seen prior to the pandemic, BAWAG has tightened its underwriting criteria for these asset classes given the deteriorated operating environment.

In addition to its retail operations, BAWAG is active in domestically focused public sector lending and in international commercial real estate (CRE) and large corporate and leveraged lending, which is mostly sourced from Western Europe and the US. As of 31 December 2022, the bank's public sector book stood at €4.6 billion, of which 90% was extended to Austrian counterparts, 6% to German public sector entities, and 4% to other Western European markets. In addition to this low-risk book, which does not account for any problem loans, BAWAG had €6.1 billion of CRE receivables on its balance sheet, of which 41% stemmed from the US, 21% from Ireland, 16% from DACH/NL, and 22% from other European and international markets. The weighted average LTV of this portfolio was below 60%, with 40% of the portfolio being collateralised by direct residential real estate, 20% representing offices, 17% industrial and logistic properties, and 23% mixed and other usage. While the higher-risk shopping and retail segment only comprised 2% of the CRE

Exhibit 3

BAWAG's problem loan ratio showed an improvement in the last years with a noticeable increase in the coverage ratio

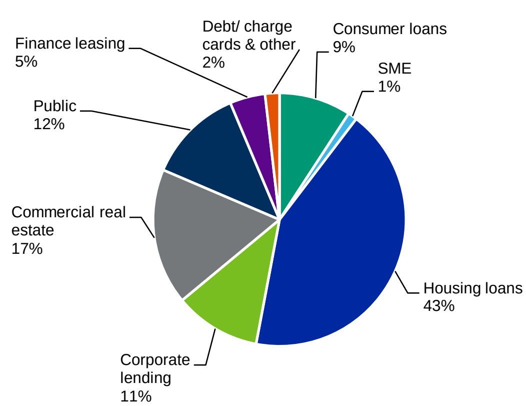


Problem loan ratio in accordance with our definitions; according to IFRS 9 reporting standards

Source: Moody's Investors Service and company filings

Exhibit 4

BAWAG's loan book split by type
As of 30 September 2022



Source: Moody's Investors Service and company filings

portfolio, the bank's overall CRE exposure amounts to two times the bank's tangible common equity (TCE). Furthermore, BAWAG grew this portfolio by 22% since December 2020, potentially adding exposures at the top of the market. Further risk stems from the bank's €3.9 billion corporate lending book, which is 39% derived from the US, 33% from DACH/NL, 9% from the UK, and 19% from other markets. While the overall portfolio is well diversified across industries, higher interest rates, inflation, supply-chain interruptions, and general geopolitical risks could result in a material rise in problem loans from this part of the lending book.

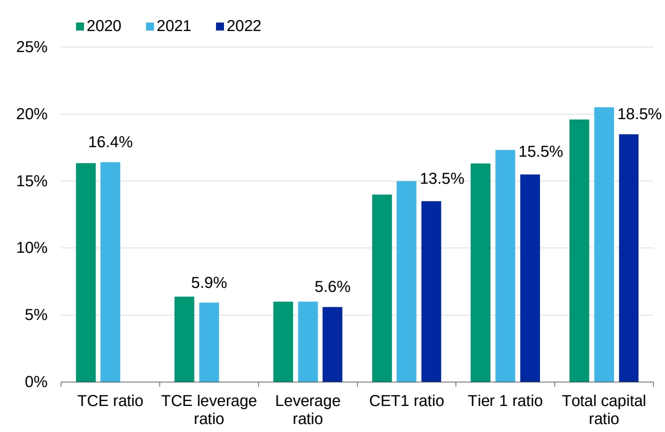
Solid capitalisation level is sustained, despite inorganic growth and return of funds to shareholders

We assign an a1 Capital score to BAWAG, one notch below the aa3 initial score. The adjustment takes into account our view that BAWAG will continue to tightly manage its TCE to risk-weighted assets (RWA) 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 31 December 2022, the CET1 ratio, excluding a €305 million dividend accrual, reached 13.5%, down from 15.0% as of year-end 2021, reflecting a combined 4.1 percentage point negative impact from RWA growth, dividend pay-outs, the conclusion of a €325 million share buyback, the Sberbank portfolio acquisition, and negative valuation effects, which more than offset a 2.6 percentage point increase from earnings generation and a small release from the write-off of the City of Linz receivable. The 13.5% CET1 ratio still represented about €260 million of excess capital above management's target and compared favourably with the bank's current regulatory CET1 ratio requirement of 9.44%,[9] which rises to 10.19% when including the 0.75% Pillar 2 Guidance. In the coming quarters, we expect BAWAG's CET1 ratio to move closer still to the 12.25% target level because of a potentially new share buyback program or special dividends as well as further M&A deals. Since our TCE ratio includes funds not yet returned to shareholders in the form of dividends or share buybacks, our measure of capital strength is expected to stay above the 14% threshold in most periods, however, commensurate with an a1 assigned score.

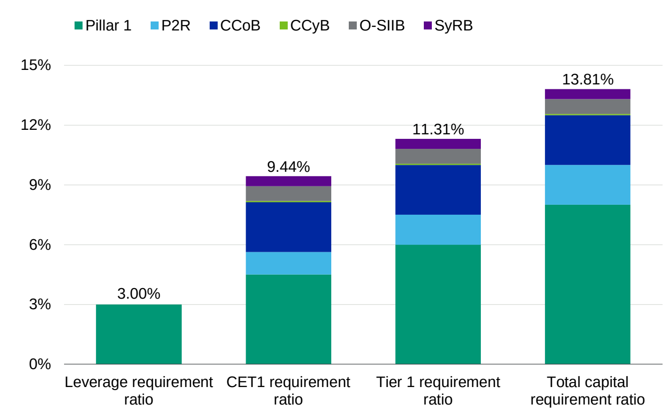
With a €300 million Additional Tier 1 (AT1) capital issuance in 2018, a €400 million Tier 2 subordinated debt sale in 2019, and a €175 million AT1 and €200 million Tier 2 issuance in the third quarter of 2020, BAWAG fully addresses its regulatory Tier 1 and total capital requirements, which stand at 11.31% and 13.81%, respectively. 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, which is currently applied to about 65% of assets. Hence, the group's risk-density as measured by RWA to tangible assets stands at about 37%, where we expect it to remain as a result of offsetting pressures from regulatory changes and optimisation measures applied by BAWAG. In line with the bank's moderate risk-density, BAWAG also reports adequate leverage metrics, which reached 5.6% on both a TCE leverage and regulatory leverage basis as of 31 December 2022.

Exhibit 5
BAWAG's capital ratios exceed regulatory minima



TCE = Tangible common equity; TCE leverage = TCE over tangible banking assets; CET1 = Common Equity Tier 1
Source: Moody's Investors Service and company filings

Exhibit 6
BAWAG's regulatory capital requirements



P2R = Pillar 2 Requirement; CCoB= Capital conservation buffer; CCyB = Countercyclical capital buffer; SIIB = Systemically important institutions buffer
Source: Moody's Investors Service and company filings

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

We assign an a3 Profitability score, one notch above the baa1 initial score, which is derived from BAWAG's 0.8% return on assets generated in 1H 2022. In 2023 and 2024, we expect BAWAG's profitability to strengthen given the revenue boost from higher interest rates, continued cost consciousness, and conservative loan loss provisioning so far, which should more than offset the headwinds from the deteriorated credit environment and higher inflation.

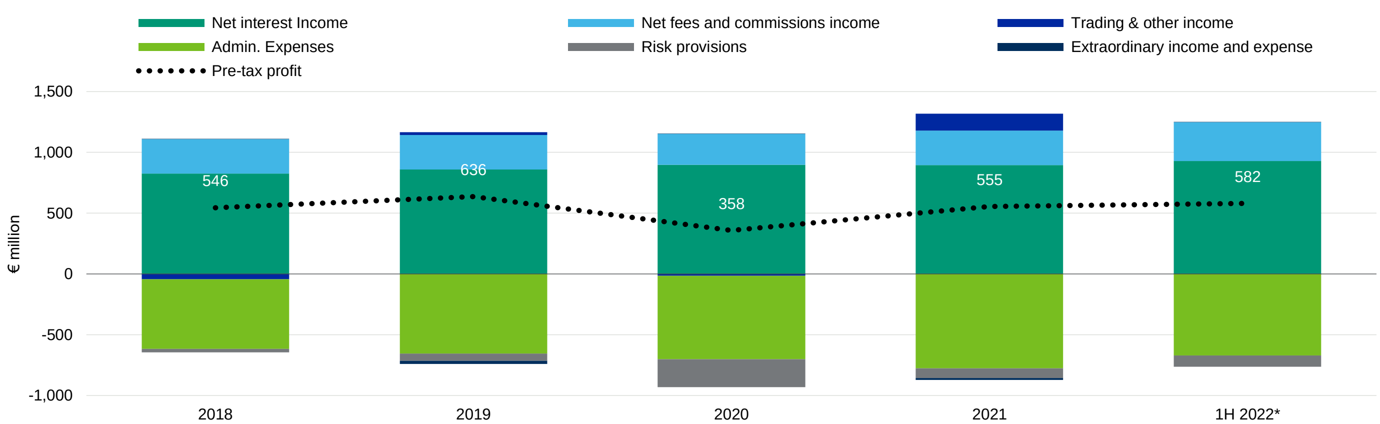
BAWAG operates with a comparably low cost-income ratio, which reflects strict and efficient cost management over the past years. With the conclusion of its exit from the distribution partnership with Austrian Post as of year-end 2019, the bank has materially reduced its physical presence and associated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

In 1H 2022, 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 €465 million, combined with €159 million in net fee and commission income and €53 million of other revenues, continued to comfortably cover the bank's €336 million in operating expenses as well as loan-loss and other provisions of €51 million. The net profit, according to our definition, reached €218 million in 1H 2022 and thus surpassed the €176 million generated in 1H 2021, mainly due to higher revenues and lower operating costs. In 2H 2022, the earnings picture was broadly in line with the performance in the first half of the year when excluding the write-off of the City of Linz receivable, which negatively impacted after-tax net profit by €190 million.

With the announcement of the bank's preliminary 2022 results on 13 February 2023, BAWAG brought forward its 2025 earnings targets to 2023. Hence, management now expects to generate net interest income of above €1.2 billion in 2023 compared to €1.0 billion in 2022, while core revenues, which include net fee and commission income, are expected to grow by more than 12% year-on-year. The substantially improved topline outlook reflects the uplift from higher interest rates, which provides a relatively imminent boost to revenues since BAWAG's loan book - similar to other Austrian banks - is mostly comprised of floating rate exposures, which will result in faster margin expansion than for banks that extend lending predominantly on an unhedged fixed-rate basis.[10] Furthermore, the bank guides for a cost increase of only about 2% despite inflationary pressures and for underlying risk costs of 20-25 basis points (19 basis points in 2022). As a result, management expects that reported profits before tax will exceed €825 million, which compares to €681 million generated in 2022, excluding the City of Linz write-down. The higher pretax profit guidance does not assume that BAWAG will release any management overlays, which were increased by €39 million to €100 million in 2022, and thus represent about one year of normalised loan loss provisions, mitigating the downside risks from the deteriorated credit environment to a large extent.

Exhibit 7

BAWAG's pre-tax profit recovered from the pandemic-related dip in 2020



*1H 2022 annualised

Source: Moody's Investors Service and company filings

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

Our a3 assigned Funding Structure score is positioned one notch above the baa1 initial score, reflecting that BAWAG's reliance on senior debt funding is expected to increase, which will likely be more than offset, though, by the repayment of TLTRO III funds.

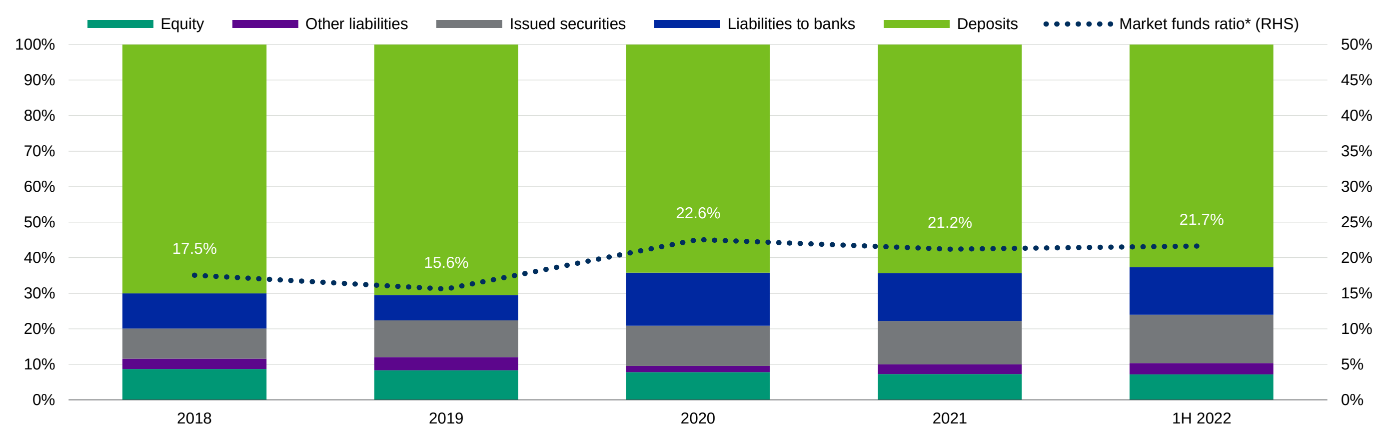
In January 2022, the bank received its latest minimum requirement for own funds and eligible liabilities (MREL), which continues to be applicable at the level of BAWAG, the resolution entity under a single point of entry (SPE) resolution strategy, rather than at the level of BAWAG Group. The new MREL decision does not include a subordination requirement and calls for MREL-eligible liabilities of 22.0% of RWA as of 1 January 2022 and 25.8% as of 1 January 2024. As of 31 December 2022, BAWAG already fulfilled its final MREL requirement given reported MREL-eligible instruments amounting to 26.1% of RWA. Nonetheless, the bank issued an additional €500 million of MREL-eligible senior unsecure debt in January 2023 and plans further issuances in the coming years in order to build a buffer for further balance sheet growth, replace maturities, and continue to meet its MREL requirement.

While this will increase the bank's market funding, the repayment of TLTRO III funds will provide an offsetting factor. In June 2020, BAWAG had first drawn down €5.8 billion of TLTRO III funds and topped this up with a further €0.6 billion drawdown in the first quarter of 2021. As a result, €6.4 billion of TLTRO III funds continued to refinance 11% of the group's balance sheet as of 30 September 2022, which was also visible in our market funds ratio, which increased to 22.6% from 15.2% during 2020 and which declined only slightly to 21.7% as of 30 June 2022. In the fourth quarter of 2022, BAWAG started to repay its TLTRO III funds, returning €1 billion to the ECB, which was followed by a further €2 billion repayment in January 2023. Management currently expects that it will have repaid its remaining €3.4 billion of TLTRO III funds in full by June 2023. However, with the bank likely replacing this funding in part with other market funds such as covered bonds, interbank funds, and further MREL-eligible debt, BAWAG's market funding dependence in relation to its balance sheet size is expected to decline only moderately.

As of 30 June 2022, the group's market funding comprised, inter alia, €7.2 billion of interbank funds (which contained the €6.4 billion of TLTRO III funds), €5.9 billion of covered bonds, and €1.6 billion of senior unsecured debt and other liabilities. The bank's main funding source remains its retail-focused customer deposit base, however, which amounted to €34.3 billion as of 31 December 2022 and thus refinanced 61% of the group's balance sheet.

Exhibit 8

BAWAG's market funds increased following TLTRO III drawdowns



*Market funds ratio = Market funds over tangible banking assets
Source: Moody's Investors Service and company filings

Solid level and quality of liquid resources

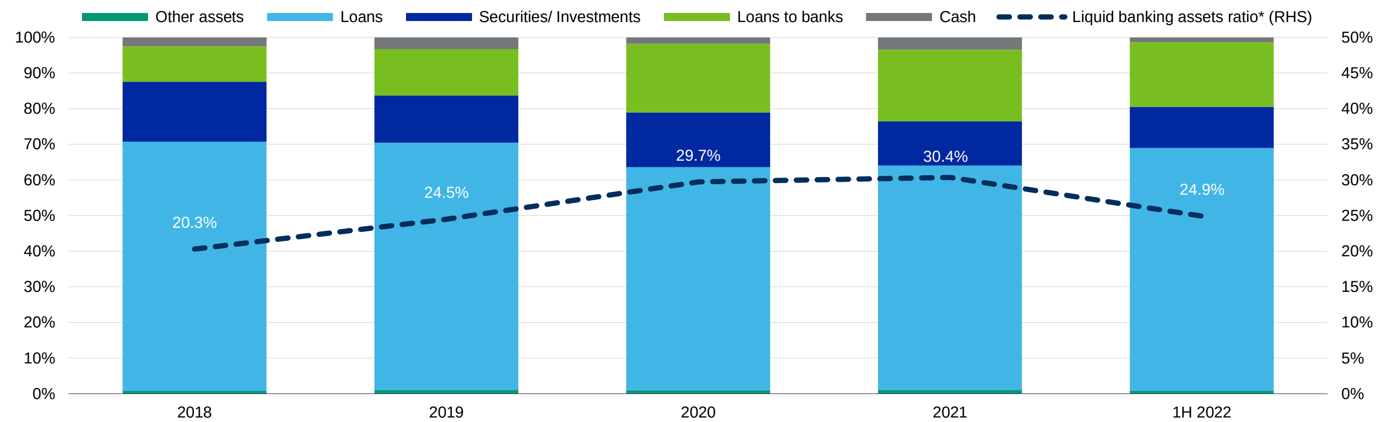
Our baa2 assigned Liquid Resources score is set three notches below the a2 initial score, reflecting some limited asset encumbrance and our expectation that liquidity will decline again following the bank's full repayment of its TLTRO III funds.

For the purpose of calculating BAWAG's regulatory liquidity coverage ratio (LCR), which reached 225% as of 31 December 2022 compared to 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 €15.0 billion as of 31 December 2022, 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 was reduced by €0.4 billion. In 2021, our liquid banking assets ratio stayed broadly stable, but in 1H 2022, liquidity reduced again since BAWAG saw opportunities to grow its customer lending book in the period and in turn reduced its liquid resources. With TLTRO III funds expected to be repaid in full in 2023, the bank's liquidity buffer will soften further, unless the bank decides to materially ramp up its investment portfolio again, which has been reduced in recent years due to the low interest rate environment.

Exhibit 9
BAWAG's liquidity has improved in 2020 due to TLTRO III drawings, but declined again in 1H 2022 due to loan growth

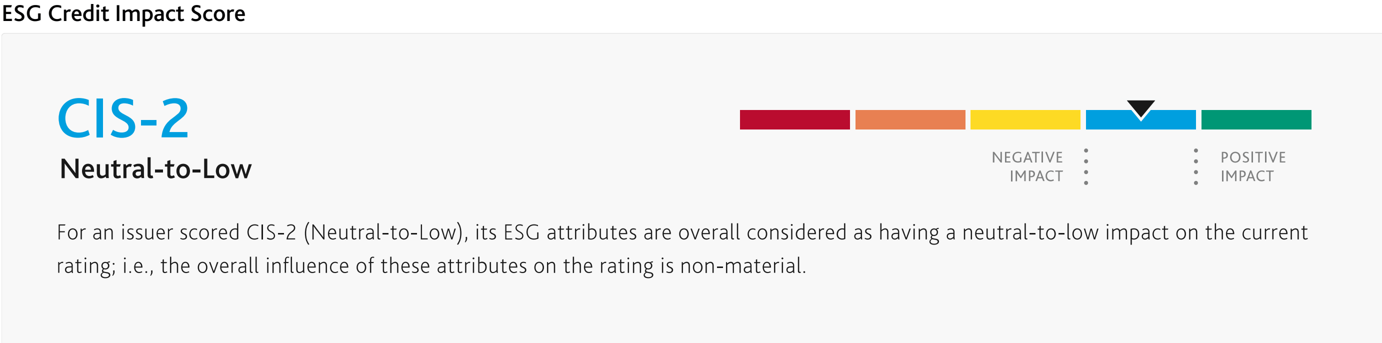


*Liquid banking assets ratio = Liquid banking assets over tangible banking assets
Source: Moody's Investors Service and company filings

ESG considerations

BAWAG's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 10
ESG Credit Impact Score



Source: Moody's Investors Service

BAWAG's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects the limited credit impact from environmental and social risk factors on the ratings to date, as well as neutral-to-low governance risks.

Exhibit 11
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental
BAWAG faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risks as a diversified bank operating in Austria, Germany and other select markets. In line with its peers, BAWAG is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, BAWAG has committed to continuously transform its lending book towards less carbon-intensive assets.

Social
BAWAG faces high industrywide customer relations risks related to regulatory risk, litigation exposure and high compliance standards in its diversified operations. High cyber and personal data risks are mitigated by technology solutions and organisational measures to prevent data breaches.

Governance
BAWAG faces neutral-to-low governance risks, and its risk management, policies and procedures are in line with industry best practices and commensurate with its universal banking model and multi-country operations. While BAWAG's strategy of growing its franchise through bolt-on acquisitions adds operational risks, the bank's track record of successfully integrating its acquired businesses provides a mitigating factor.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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.

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 deduct the bank's TLTRO III drawings from its tangible banking assets since their repayment in 2023 is expected to reduce the bank's balance sheet size.

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.

Government support

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 instruments 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.

Additional Tier 1 (AT1) instruments

We assign Ba1(hyb) ratings to the €300 million and €175 million low-trigger AT1 instruments issued by BAWAG Group. These ratings are positioned three notches below BAWAG's baa1 Adjusted BCA, reflecting our assessment of the instruments' undated deeply subordinated claim in liquidation, the issuer's ability to redeem the securities under certain conditions 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 instruments are fulfilled and orders such a write-down as a precautionary measure to prevent insolvency.

Counterparty Risk Rating

The Counterparty Risk Rating (CRR) is A1/P-1, 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.

Counterparty Risk Assessment

The Counterparty Risk (CR) Assessment is A1(cr)/P-1(cr), 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.

Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than 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 and BAWAG Group 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 12
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	2.7%	a2	↔	baa2	Sector concentration	Operational risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	15.6%	aa3	↓	a1	Expected trend	Capital retention
Profitability						
Net Income / Tangible Assets	0.8%	baa1	↑	a3	Expected trend	Return on assets
Combined Solvency Score		a2		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	21.2%	baa1	↑	a3	Expected trend	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	30.4%	a2	↓	baa2	Expected trend	Asset encumbrance
Combined Liquidity Score		a3		baa1		
Financial Profile				a3		
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				a2 - baa1		
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	10,749	22.3%	13,034	27.0%
Deposits	32,636	67.6%	30,351	62.9%
Preferred deposits	29,372	60.9%	27,904	57.8%
Junior deposits	3,264	6.8%	2,448	5.1%
Senior unsecured bank debt	1,691	3.5%	1,691	3.5%
Junior senior unsecured bank debt	500	1.0%	500	1.0%
Dated subordinated bank debt	157	0.3%	157	0.3%
Dated subordinated holding company debt	600	1.2%	600	1.2%
Preference shares(holding company)	475	1.0%	475	1.0%
Equity	1,448	3.0%	1,448	3.0%
Total Tangible Banking Assets	48,256	100.0%	48,256	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	15.2%	15.2%	15.2%	15.2%	3	3	3	3	0	a1
Counterparty Risk Assessment	15.2%	15.2%	15.2%	15.2%	3	3	3	3	0	a1 (cr)
Deposits	15.2%	6.6%	15.2%	10.1%	2	3	2	2	0	a2
Senior unsecured bank debt	15.2%	6.6%	10.1%	6.6%	2	1	2	2	0	a2
Junior senior unsecured bank debt	6.6%	5.6%	6.6%	5.6%	0	0	0	0	0	baa1
Dated subordinated bank debt	5.6%	4.0%	5.6%	4.0%	-1	-1	-1	-1	0	baa2
Dated subordinated holding company debt	5.6%	4.0%	5.6%	4.0%	-1	-1	-1	-1	0	baa2
Holding company non-cumulative preference shares	4.0%	3.0%	4.0%	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 13

Category	Moody's Rating
BAWAG P.S.K. AG	
Outlook	Positive
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 We also affirmed BAWAG's other ratings and rating inputs, and we affirmed BAWAG Group's Baa2 subordinate and Ba1(hyb) preferred stock non-cumulative ratings.

2 Südwestbank was merged into BAWAG P.S.K. AG in February 2021 and now operates as a branch.

3 Renamed start:bausparkasse in January 2019.

4 Renamed Health Coevo AG in July 2019.

5 DEPFA BANK plc and its subsidiary DEPFA ACS BANK DAC were merged into BAWAG P.S.K. AG, while Hello bank! Austria now operates under the easybank brand.

6 The purchase price was directly paid to the Austrian deposit guarantee scheme.

7 Approximately €400 million gross receivable, which was marked at 60% on the balance sheet.

8 The weighted average LTV at origination has been about 70% since 2020.

9 BAWAG's CET1 ratio requirement currently comprises the 4.50% minimum requirement, the 2.50% capital conservation buffer, a 0.5% systemic risk buffer, a 0.75% buffer since BAWAG is designated an other systemically important institution (O-SII), a 0.06% countercyclical buffer, and a 1.125% Pillar 2 Requirement (P2R). The bank's O-SII buffer will rise to 0.9% in 2024.

10 According the BAWAG, the group hedges its balance sheet to the three-months Euribor and it is therefore mainly exposed to the overnight rate and three-months Euribor, with a 200bps rate increase resulting in €200 million additional net interest income per annum (the repricing of the loan book takes 4-5 months).

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