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CREDIT OPINION
27 June 2023

Update

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BAWAG P.S.K. AG

Update following initiation of review for upgrade

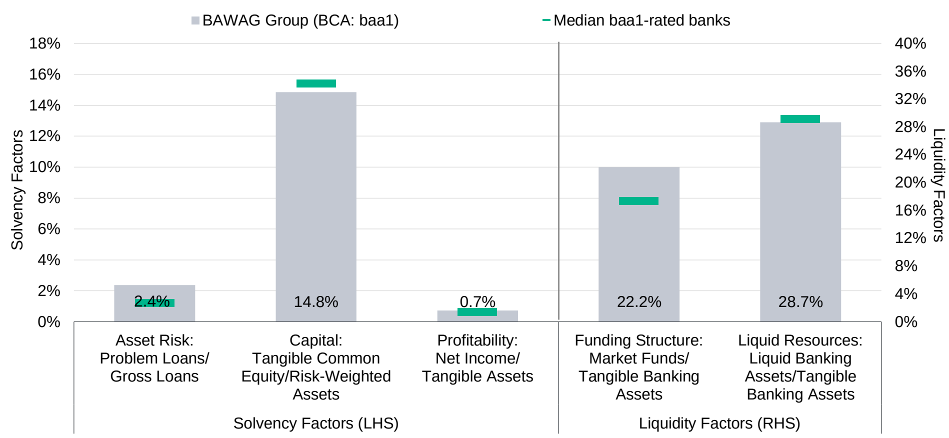
Summary

On 20 June 2023, we placed the A2 deposit, issuer, and senior unsecured ratings, as well as the A1 Counterparty Risk Rating and the A1(cr) Counterparty Risk Assessment of BAWAG P.S.K. AG (BAWAG) on review for upgrade.

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. At present, we do not incorporate rating uplift from government support for BAWAG due to the wider scope of BRRD application in Austria and past willingness of its government to apply burden-sharing to creditors. This could change upon the closure of our ratings review.

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

RATINGS

BAWAG P.S.K. AG

Domicile	Vienna, Austria
Long Term CRR	A1 , Possible Upgrade
Type	LT Counterparty Risk Rating - Dom Curr
Outlook	Not Assigned
Long Term Debt	A2 , Possible Upgrade
Type	Senior Unsecured - Fgn Curr
Outlook	Rating(s) Under Review
Long Term Deposit	A2 , Possible Upgrade
Type	LT Bank Deposits - Fgn Curr
Outlook	Rating(s) Under Review

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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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 outlook of ratings under review reflects that BAWAG's senior instrument ratings could be upgraded if we change our assumption regarding the likelihood of government support for such senior obligations to moderate from low.

» The previously 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 or due to government support uplift.

» 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.

» As indicated by our review for upgrade, BAWAG's deposit, senior unsecured, and issuer ratings could also be upgraded by one notch if we assume a moderate rather than a low likelihood of government support for such obligations upon the closure of our ratings review. Ratings could be confirmed if, other things equal, we were to view the likelihood of government support to BAWAG to be low, considering among other factors its systemic relevance within the Austrian banking system, their interconnectedness and/or the complexity of their operations.

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]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	56.5	56.3	52.0	44.7	44.5	6.1[4]
Total Assets (USD Billion)	60.3	63.8	63.6	50.2	50.9	4.3[4]
Tangible Common Equity (EUR Billion)	3.1	3.3	3.3	3.0	3.3	(1.5)[4]
Tangible Common Equity (USD Billion)	3.3	3.7	4.0	3.4	3.7	(3.2)[4]
Problem Loans / Gross Loans (%)	1.7	2.6	2.8	2.9	3.6	2.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.8	16.4	16.3	14.6	16.0	15.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.7	24.8	25.1	27.3	31.6	25.3[5]
Net Interest Margin (%)	1.8	1.7	1.8	2.0	1.9	1.8[5]
PPI / Average RWA (%)	3.5	3.1	2.8	3.3	2.9	3.1[6]
Net Income / Tangible Assets (%)	0.9	0.8	0.5	1.1	0.9	0.8[5]
Cost / Income Ratio (%)	47.4	55.2	54.6	49.3	49.1	51.1[5]
Market Funds / Tangible Banking Assets (%)	22.2	21.2	22.8	15.6	17.5	19.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	28.7	30.4	29.7	24.5	20.3	26.7[5]
Gross Loans / Due to Customers (%)	105.6	100.6	100.7	101.0	101.8	101.9[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[1], Deutscher Ring Bausparkasse[2] in 2018, and BFL Leasing GmbH and EOS Health Honorarmanagement AG[3] 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[4]. 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[5].

As of 31 March 2023, BAWAG Group held €54.5 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 31 December 2022, 51% of BAWAG's exposure at default derived from Austria, 12% from the United States, 10% from Germany, 9% from the Netherlands, 5% from Ireland, and 4% from the United Kingdom, with other countries accounting for the remaining 9%. 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

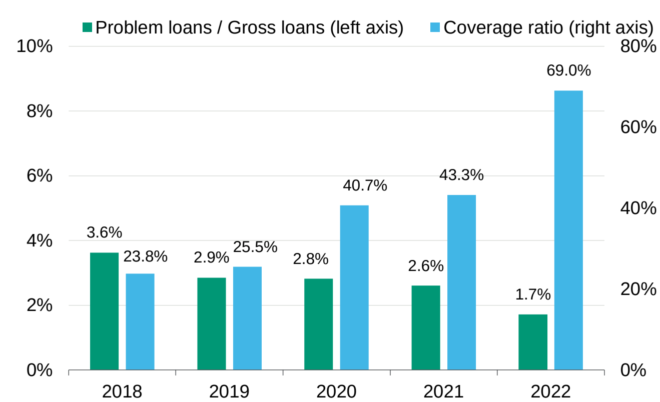
We assign a baa2 Asset Risk score to BAWAG, three notches below the a2 initial score. The adjustment reflects our expectation of a higher level of problem loan formation than in recent years given the deteriorated credit environment; concentration risks in cyclical lending areas, including commercial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

As of 31 December 2022, BAWAG's problem loan ratio stood at 1.7%, down from 2.6% as of year-end 2021. Its €620 million of problem loans as of 31 December 2022 no longer included a €254 million net receivable,[6] which was 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.[7]

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 March 2023, the bank's residential mortgage book amounted to €15.8 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 65% of housing loans were extended on a fixed-rate basis, 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 60%.[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 €0.7 billion of overdraft, charge card, and other 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.

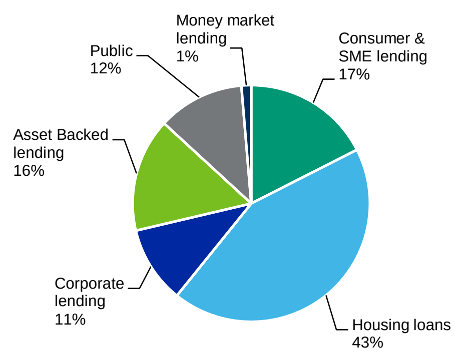
In addition to its retail operations, BAWAG is active in domestically focused public sector lending and in international commercial real estate (CRE) and large corporate and leveraged lending, which is mostly sourced from Western Europe and the US. As of 31 March

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 31 March 2023



Source: Moody's Investors Service and company filings

2023, the bank's public sector book stood at €4.7 billion, of which 86% was extended to Austrian counterparts, 8% to German public sector entities, and 6% to other Western European markets. In addition to this low-risk book, which does not account for any problem loans, BAWAG had €5.7 billion of CRE receivables on its balance sheet, of which 40% stemmed from the US, 22% from Ireland, 15% from DACH/NL, and 23% from other European and international markets. The weighted average LTV of this portfolio was below 60%, with 41% of the portfolio being collateralised by direct residential real estate, 24% by industrial and logistic properties, 21% by offices, 7% by hotels, and 2% by other properties. While the higher-risk shopping and retail segment only comprised 5% of the CRE portfolio, the bank's overall CRE exposure amounts to almost two times the bank's tangible common equity (TCE). Furthermore, BAWAG grew this portfolio by 14% since December 2020, potentially adding exposures at the top of the market. Further risk stems from the bank's €3.8 billion corporate lending book, which is 38% derived from the US, 37% from DACH/NL, 9% from the UK, and 16% 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.

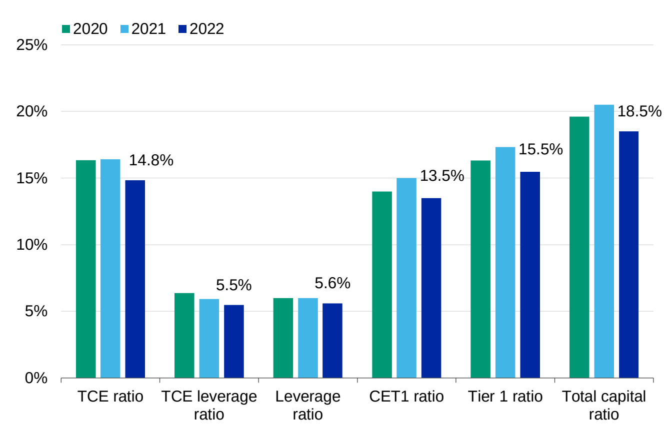
Solid capitalisation level is sustained, despite inorganic growth and return of funds to shareholders

We assign an a1 Capital score to BAWAG, in line with the 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 March 2023, the CET1 ratio reached 14.5%, up from 13.5% as of year-end 2022, reflecting a 0.7 percentage point increase from earnings and a 0.3 percentage point positive impact from a reduction in RWA. Excluding a €77 million dividend accrual, the CET1 ratio reached 14.1%, which represented €365 million of excess capital above management's target and compared favourably with the bank's current regulatory CET1 ratio requirement of 9.56%,[9] which rises to 10.31% when including the 0.75% Pillar 2 Guidance. In the coming quarters, we expect BAWAG's CET1 ratio to move closer again to the 12.25% target level because of a potentially new share buyback program[10] 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.

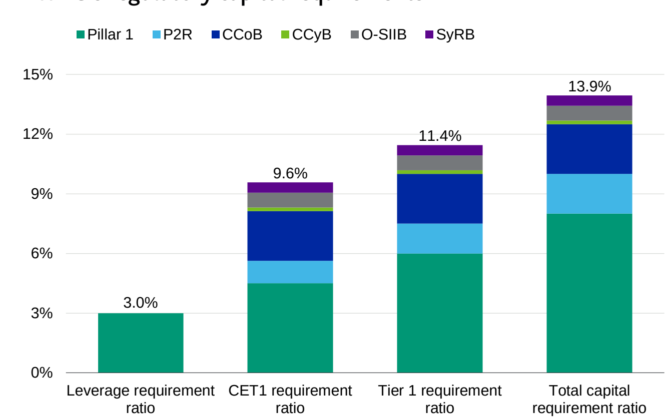
With a €300 million Additional Tier 1 (AT1) capital issuance in 2018, a €400 million Tier 2 subordinated debt sale in 2019, and a €175 million AT1 and €200 million Tier 2 issuance in the third quarter of 2020, BAWAG fully addresses its regulatory Tier 1 and total capital requirements, which stand at 11.43% and 13.93%, 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

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

tangible assets stood at about 37% as of 31 December 2022, where we expect it to broadly 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 5.5% on a TCE leverage and 5.6% on a regulatory leverage basis as of 31 December 2022.[11]

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

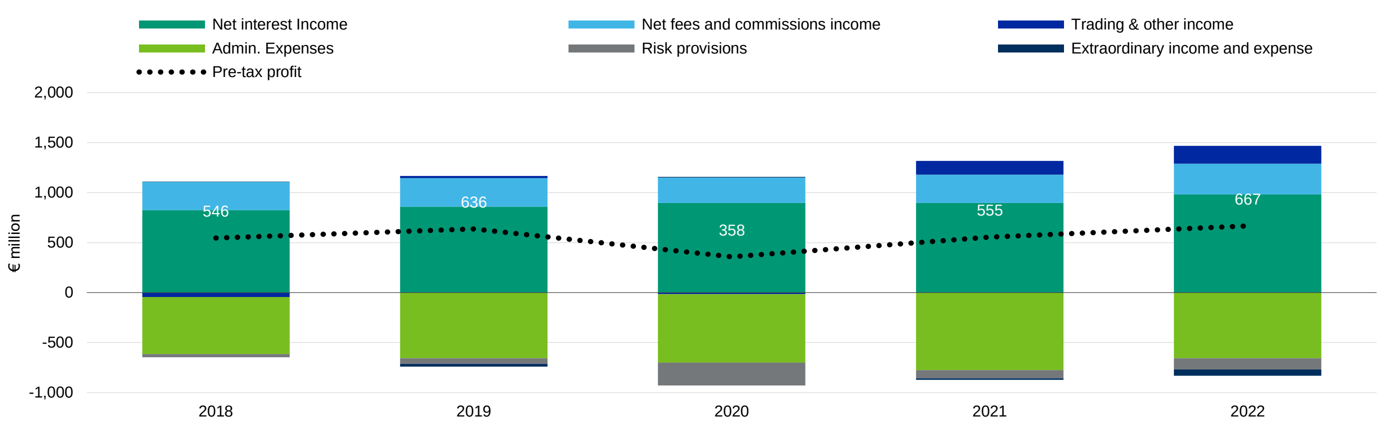
We assign an a3 Profitability score, two notches above the baa2 initial score, which is derived from BAWAG's 0.7% average return on assets generated in 2020, 2021, and 2022. In 2023 and 2024, we expect BAWAG's profitability to strengthen given the revenue boost from higher interest rates, continued cost 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 2022, BAWAG's reported net interest margin of 2.33% remained at a strong level, particularly when considering its focus on domestic, German and Dutch retail banking. As a result, the Moody's adjusted net interest income of €981 million, combined with €309 million in net fee and commission income and €94 million of other revenues, continued to comfortably cover the bank's €657 million in operating expenses as well as loan-loss and other provisions of €125 million. The net profit, according to our definition, reached €493 million in 2022 and thus surpassed the €440 million generated in 2021, mainly due to lower operating costs.[12] In the first quarter of 2023, the earnings picture continued to improve, with BAWAG being able to report a net profit of €140 million, 26% higher than the €111 million reported in the first quarter of 2022. The improvement was mainly due to 20% higher net interest income, while net fee and commission income declined by 6% and operating costs and loan loss provisions remained broadly stable.

With the announcement of the bank's 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.[13] 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

Exhibit 7
BAWAG's pre-tax profit recovered from the pandemic-related dip in 2020



Source: Moody's Investors Service and company filings

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.

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

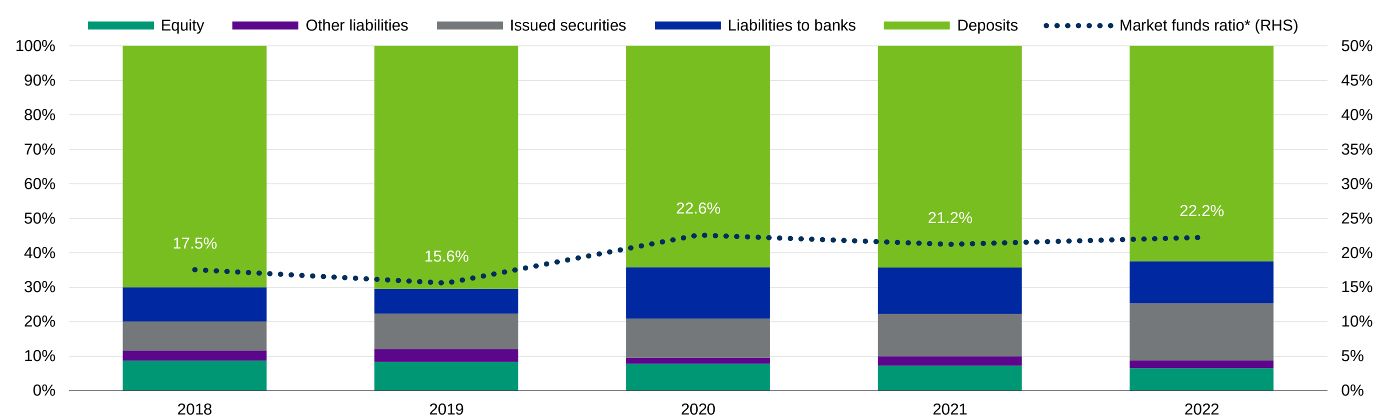
Our a3 assigned Funding Structure score is positioned one notch above the baa1 initial score, reflecting that BAWAG's reliance on senior debt funding is expected to increase, which will likely be more than offset, though, by the repayment of TLTRO III funds.

In February 2023, 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 MREL decision does not include a subordination requirement and sets a current interim requirement for MREL-eligible liabilities of 22.5% of RWA and an end state requirement of 26.5% applicable as of 1 January 2024.[14] As of 31 March 2023, BAWAG already fulfilled its final MREL requirement given reported MREL-eligible instruments amounting to 29% of RWA. The bank had issued an additional €500 million of MREL-eligible senior unsecured 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. In the fourth quarter of 2022, BAWAG started to repay its TLTRO III funds, however, returning €1 billion to the ECB. As a result, €5.4 billion of TLTRO III funds refinanced 11% of the group's balance sheet as of 31 December 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 22.2% as of 31 December 2022. In January 2023, BAWAG repaid a further €2 billion of TLTRO III funds and management currently expects that it will have redeemed a further €2.8 billion by the end of 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 31 December 2022, the group's market funding comprised, inter alia, €6.7 billion of interbank funds (which contained the €5.4 billion of TLTRO III funds), €7.6 billion of covered bonds, and €1.9 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

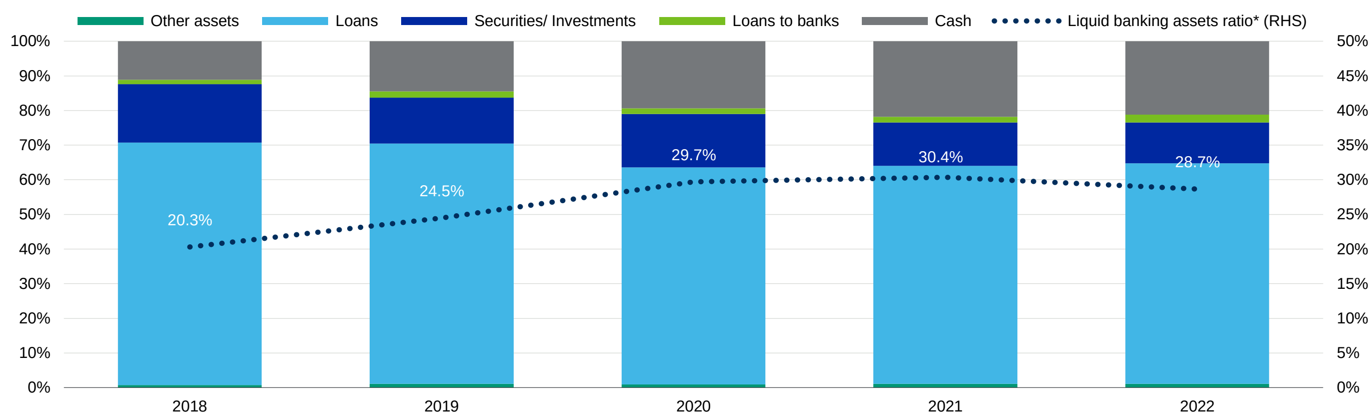
Our baa2 assigned Liquid Resources score is set two notches below the a3 initial score, reflecting some limited asset encumbrance and our expectation that liquidity will decline again following the bank's full repayment of its TLTRO III funds.

For the purpose of calculating BAWAG's regulatory liquidity coverage ratio (LCR), which reached 215% as of 31 March 2023 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 €14.4 billion as of 31 March 2023, 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 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 2022 due to loan growth



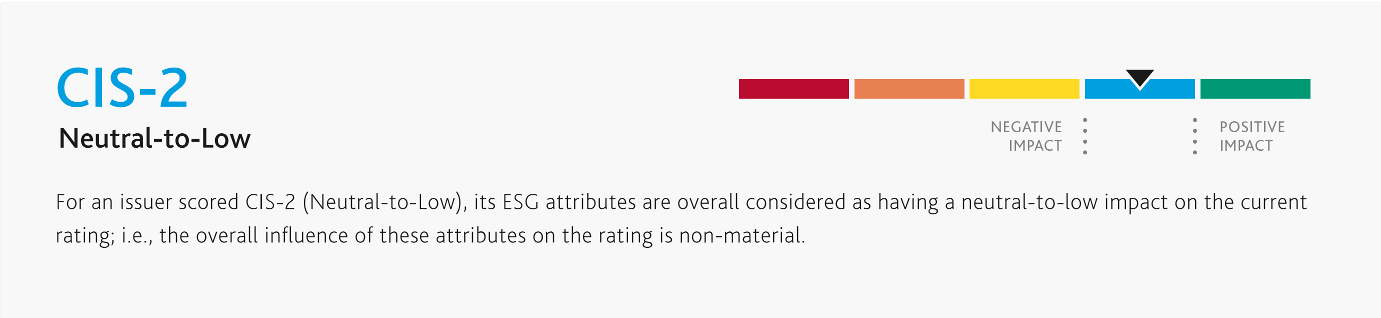
*Liquid banking assets ratio = Liquid banking assets over tangible banking assets

Source: Moody's Investors Service and company filings

ESG considerations

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

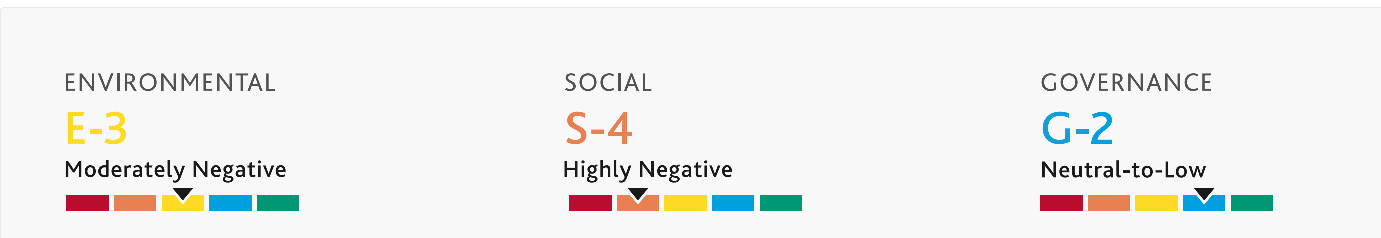
Exhibit 10
ESG Credit Impact Score



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



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 in 2014 and 2015, we assign a low level of support for the senior debt instruments of its banks at present, irrespective of their size or importance for the Austrian banking system. 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. However, since we are currently reassessing our government support assumptions for systemically relevant banks in Austria, BAWAG’s senior ratings could incorporate a moderate government support assumption and, hence, one notch rating uplift in the future, which is expressed in the review for upgrade.

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		2.4%	a2	↔	baa2	Sector concentration	Operational risk
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)		14.8%	a1	↔	a1	Expected trend	Capital retention
Profitability							
Net Income / Tangible Assets		0.7%	baa2	↑↑	a3	Expected trend	Return on assets
Combined Solvency Score			a2		a3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		22.2%	baa1	↑	a3	Expected trend	Extent of market funding reliance
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		28.7%	a3	↓	baa2	Expected trend	Asset encumbrance
Combined Liquidity Score			baa1		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	11,988	23.6%	14,334	28.3%
Deposits	33,511	66.1%	31,166	61.4%
Preferred deposits	30,160	59.5%	28,652	56.5%
Junior deposits	3,351	6.6%	2,513	5.0%
Senior unsecured bank debt	1,969	3.9%	1,969	3.9%
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	0.9%	475	0.9%
Equity	1,522	3.0%	1,522	3.0%
Total Tangible Banking Assets	50,722	100.0%	50,722	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	15.3%	15.3%	15.3%	15.3%	3	3	3	3	0	a1
Counterparty Risk Assessment	15.3%	15.3%	15.3%	15.3%	3	3	3	3	0	a1 (cr)
Deposits	15.3%	6.4%	15.3%	10.3%	2	3	2	2	0	a2
Senior unsecured bank debt	15.3%	6.4%	10.3%	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 RUR Possible Upgrade	
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr) RUR Possible Upgrade	
Deposits	2	0	a2	0	A2 RUR Possible Upgrade	A2 RUR Possible Upgrade
Senior unsecured bank debt	2	0	a2	0	A2 RUR Possible Upgrade	A2 RUR Possible Upgrade
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	Rating(s) Under Review
Counterparty Risk Rating -Dom Curr	A1/P-1[1]
Bank Deposits	A2/P-1[1]
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)[1]
Issuer Rating	A2[2]
Senior Unsecured	A2[2]
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)

[1] Rating(s) within this class was/were placed on review on June 20 2023 [2] Placed under review for possible upgrade on June 20 2023
Source: Moody's Investors Service

Endnotes

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

2 Renamed start:bausparkasse in January 2019.

3 Renamed Health Coevo AG in July 2019.

4 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.

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

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

7 Subsequently, the City of Linz and BAWAG reached an out-of-court settlement. Against payment of €12 million by the City of Linz, both parties waived their mutually purported claims with each party bearing its own legal costs.

8 The weighted average LTV at origination has been below 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 0.18% countercyclical capital buffer, and a 1.125% Pillar 2 Requirement (P2R). The bank's O-SII buffer will rise to 0.9% in 2024.

10 Subject to regulatory approval, BAWAG plans to buy back shares up to 100 basis points of the CET1 ratio in 2023.

11 The regulatory leverage ratio improved to 5.9% as of 31 March 2023.

12 Since it was a one-off charge, our calculation of net profit in 2022 excludes the write-off of the City of Linz receivable, which negatively impacted after-tax net profit by €190 million.

13 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.

14 Both the interim and the final MREL requirement include the 3.93% combined buffer requirement as of 31 March 2023.

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