

Rating Action: Moody's affirms BAWAG P.S.K.'s A2 deposit ratings; changes outlook on deposit ratings to stable from positive

18 Jun 2019

Frankfurt am Main, June 18, 2019 -- Moody's Investors Service has today affirmed all ratings of BAWAG P.S.K. (BAWAG) and BAWAG Group AG (BAWAG Group), including BAWAG's A2 senior unsecured debt and deposit ratings, the bank's baa1 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as the bank's A1/P-1 Counterparty Risk Ratings (CRR). At the same time, the rating agency changed the outlook on BAWAG's long-term deposit ratings to stable from positive and maintained the stable outlook for BAWAG's senior unsecured debt and issuer ratings.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

-- AFFIRMATION OF THE BCA AND THE LONG-TERM RATINGS

The affirmation of BAWAG's baa1 BCA reflects that the bank's standalone intrinsic strength remained overall stable over the past year and that its credit profile is unlikely to materially and sustainably improve from its current level. While BAWAG's asset risk has slightly deteriorated and the bank has no plans to improve its capitalization -- despite rather sound profitability -- its overall solvency profile remains resilient and capable to absorb adverse economic developments. BAWAG's creditworthiness continues to be supported by its only moderate reliance on market funding, given the bank's emphasis on deposit funding, as well as adequate availability of liquid assets.

At the same time, BAWAG's tactical investments in credit-linked exposures and lending portfolios continue to result in a dynamic development of assets and expose the bank to more concentrated risks. As the currently benign credit cycle advances, these investments make BAWAG more susceptible to increases in future loan losses that would weigh on the bank's profitability, which limits the upward potential for BAWAG's BCA.

Taking into account the bank's commitment to reinvest excess capital foremost into business growth and following the bank's planned share buyback, the rating agency expects BAWAG to maintain a reduced and range-bound, but still solid capital buffer above regulatory minimum requirements and commensurate with the affirmed baa1 BCA. Moody's believes that BAWAG's continued strong earnings capacity gives the bank degrees of freedom to strengthen its capitalization, if and when needed.

The affirmation of BAWAG's ratings reflects the affirmation of the BCA, BAWAG's current liability structure and the bank's future debt issuance plans, based on which Moody's Advanced Loss Given Failure (LGF) analysis results in unchanged rating notching for all liability classes in issue within BAWAG Group.

-- CHANGE OF OUTLOOK ON BAWAG'S LONG-TERM DEPOSIT RATINGS TO STABLE FROM POSITIVE

The change in outlook on BAWAG's long-term deposit ratings reflects Moody's expectation that BAWAG's solvency metrics will not materially improve, in particular because of the plan of a material share buyback earlier this year and continued appetite for bolt-on acquisitions, which is expected to soften the bank's risk-weighted capitalisation into its 12%-13% Common Equity Tier 1 ratio target range from 14.9% as of March 2019. The stable outlook also expresses Moody's view that the bank's exposure to cyclical risks limits its ability to sustainably improve its asset risk profile further at the current, well-advanced stage of the credit cycle, while industry-wide margin pressures and competitive lending markets could weigh on profitability. Overall, the rating agency therefore believes that an improvement in BAWAG's solvency profile is less likely than previously assumed.

The unchanged stable outlook for BAWAG's long-term senior unsecured debt ratings reflects both the bank's now limited upside potential on its standalone financial strength and the rating agency's confidence that BAWAG will continue to successfully execute its issuance plans, in particular for debt instruments that rank at the junior senior unsecured debt level, which provides an additional loss-absorption cushion for senior unsecured bondholders.

-- WHAT COULD MOVE THE RATINGS UP/DOWN

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

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

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

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

LIST OF AFFECTED RATINGS

Affirmations:

Issuer: BAWAG P.S.K.

...LT Issuer Rating (Local & Foreign Currency), Affirmed A2, Outlook remains Stable

...ST Issuer Rating (Local & Foreign Currency), Affirmed P-1

...LT Bank Deposits (Local & Foreign Currency), Affirmed A2, Outlook Changed to Stable from Positive

...ST Bank Deposits (Local & Foreign Currency), Affirmed P-1

...LT Senior Unsecured (Local & Foreign Currency), Affirmed A2, Outlook remains Stable

...Subordinate (Local Currency), Affirmed Baa2

...Senior Unsecured MTN Program Rating (Local Currency), Affirmed (P)A2

...Subordinate MTN Program Rating (Local Currency), Affirmed (P)Baa2

...LT Counterparty Risk Rating (Local Currency), Affirmed A1

...ST Counterparty Risk Rating (Local Currency), Affirmed P-1

...Adjusted Baseline Credit Assessment, Affirmed baa1

...Baseline Credit Assessment, Affirmed baa1

...LT Counterparty Risk Assessment, Affirmed at A1(cr)

...ST Counterparty Risk Assessment, Affirmed P-1(cr)

Issuer: BAWAG Group AG

...Subordinate (Local Currency), Affirmed Baa2

...Non-cumulative Preferred Stock (Local Currency), Affirmed Ba1(hyb)

Outlook Action:

Issuer: BAWAG P.S.K.

...Changed to Stable from Positive(m)

Issuer: BAWAG Group AG

...No outlook assigned

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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