

Rating Action: Moody's downgrades BAWAG P.S.K. Public Sector Covered Bonds to Aa1

Global Credit Research - 21 Apr 2011

Frankfurt am Main, April 21, 2011 -- Moody's Investors Service has today downgraded the covered bonds issued by BAWAG P.S.K. (BAWAG) under its public sector covered bond programme to Aa1 from Aaa. The previous rating action was on 31 October 2006 when Moody's assigned an Aaa to the covered bonds issued under this programme.

RATINGS RATIONALE

Today's rating action follows Moody's downgrade of the issuer's senior unsecured rating from Baa1 to Baa2, following Moody's re-assessment of its future extraordinary systemic support assumptions, while affirming BAWAG's standalone financial strength rating (BFSR) at D, stable outlook. For further information on this rating action please refer to "Moody's downgrades BAWAG's long-term senior debt and deposit ratings to Baa2; outlook stable (Austria)" published on 19 April 2011.

Moody's notes that the rating action on the covered bonds was not caused by a deterioration in the credit quality of the cover pool assets backing the covered bonds. The downgrade of the issuer's senior unsecured rating negatively affected the covered bonds through its impact on both the TPI analysis and the expected loss analysis. The Aa1 rating assigned to the existing covered bonds is expected to be assigned to all subsequent covered bonds issued by the issuer under this programme and any future rating actions are expected to affect all such covered bonds. If there are any exceptions to this, Moody's will, in each case, publish details in a separate press release.

KEY RATING ASSUMPTIONS/FACTORS

Covered bond ratings are determined after applying a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL) which determines expected loss as a function of the issuer's probability of default, measured by the issuer's rating and the stressed losses on the cover pool assets following issuer default.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI) which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating. The primary driver of the covered bond rating action has been the impact that the senior unsecured issuer rating downgrade has had under Moody's TPI framework. Following the downgrade of the issuer -- and based on the programme's current TPI of "High" -- the covered bond ratings have been lowered to the highest achievable level under the TPI framework.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on an issuer's credit strength.

The TPI Leeway measures the number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework.

Based on the current TPI of "High" in combination with the issuer rating, the TPI Leeway of the covered bonds is 0 notches.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances. Some examples might be (i) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (ii) a multiple-notch downgrade of the issuer; or (iii) a material reduction of the cover pool's value.

RATING METHODOLOGY

The principal methodologies used in rating this transaction were Moody's Rating Approach to Covered Bonds, published in March 2010, and Assessing Swaps as Hedges in the Covered Bond Market, published in September 2008.

The rating assigned by Moody's addresses the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information and confidential and proprietary Moody's Investors Service information

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