

## **FITCH RATES AUSTRIA'S BAWAG P.S.K. 'A-'; OUTLOOK STABLE**

Fitch Ratings-London-07 November 2016: Fitch Ratings has assigned Austrian bank BAWAG P.S.K. Bank fuer Arbeit und Wirtschaft und Oesterreichische Postsparkasse Aktiengesellschaft a Long-Term Issuer Default Rating (IDR) of 'A-' with a Stable Outlook, a Short-Term IDR of 'F1' and a Viability Rating (VR) of 'a-'. A full list of rating actions is available at the end of this rating action commentary.

### **KEY RATING DRIVERS**

#### **IDRS and VR**

The IDRs of BAWAG are driven by its VR, which reflects the successful track record of its management in realigning the business model and improving its financial profile following the completion of its restructuring. The ratings also reflect the bank's effective risk management and generally conservative risk appetite, which includes a focus on high-quality assets in highly developed markets. The bank's asset quality is strong with NPLs at a low 2.4% of customer loans at end-1H16.

The ratings also reflect BAWAG's planned significant growth in the medium term, especially through further opportunistic acquisitions of loan portfolios or other banks. While we expect that growth to remain well-controlled, this strategy carries heightened execution risk and may negatively affect the bank's profitability and capitalisation. The bank has some risk appetite for exposures to cyclical industries, particularly international commercial real estate, although this is mitigated by the bank's underwriting standards and risk controls.

BAWAG's healthy performance record is supported by a strong focus on cost control, efficient processes and pricing discipline. Together with the bank's growing international presence, this compensates for the high competitive pressure in a relatively small home market in Austria.

The ratings take into account a possible moderate dilution of BAWAG's strong capital ratios as the bank plans further acquisitions. At end-1H16, BAWAG's Fitch Core Capital (FCC)-to-risk-weighted assets (RWA) was strong at 17%, and the fully-loaded regulatory leverage ratio stood at 6.6%. We expect capitalisation to continue to compare favourably with peers, through a continuing flexible approach to profit distribution, which the bank resumed in 2016.

The 'F1' Short-Term IDR is the higher of the two Short-Term IDRs possible for an 'A-' Long-Term IDR, which reflects Fitch's view of BAWAG's solid liquidity and funding. Its solid funding structure is underpinned by a large and stable customer deposit base - which accounts for 70% of total liabilities - and increasingly diversified wholesale market access. The bank also benefits from its established brand and strong retail franchise in Austria.

### **SUPPORT RATING AND SUPPORT RATING FLOOR**

The Support Rating and SRF reflects our view that the EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) are now sufficiently progressed to provide a resolution framework that is likely to require senior creditors participating in losses, if necessary, instead, or ahead, of a bank receiving sovereign support. The BRRD, which was implemented into Austrian legislation with its bail-in tool with effect from 1 January 2015, includes minimum loss absorption requirements before resolution financing or alternative financing (eg, government stabilisation funds) can be used.

In addition, we do not factor into the rating any support from BAWAG's owners because Fitch generally views that support from financial investors, while possible, cannot be relied upon.

## RATING SENSITIVITIES

### IDRS and VR

The Long-Term IDR is sensitive to changes to the VR.

An upgrade of the VR would require a longer track record of generating resilient earnings and maintaining sound asset quality through the economic cycle and amid more adverse market conditions. An upgrade would also require a successful expansion and diversification of the bank's asset base, particularly the establishment of a solid franchise in its targeted international markets, including Germany and the UK, while maintaining a conservative risk appetite.

A downgrade of the VR could arise from excessive, capital-eroding growth, significantly deteriorating internal capital generation that puts pressure on the bank's currently high capital ratios, or deterioration in the bank's risk profile or material increase in risk appetite.

The Short-Term IDR is sensitive to changes to BAWAG's Long-Term IDR, or a worsening of the bank's funding and liquidity.

## SUPPORT RATING AND SUPPORT RATING FLOOR

Any upgrade of the Support Rating and upward revision of the Support Rating Floor would be contingent on a positive change in the sovereign's propensity to provide support. This is highly unlikely, in our view, in light of the new regulatory regime.

The rating actions are as follows:

### BAWAG P.S.K.

Long-Term IDR assigned at 'A-'; Outlook Stable

Short-Term IDR assigned at 'F1'

Viability Rating assigned at 'a-'

Support Rating assigned at '5'

Support Rating Floor assigned at 'No Floor'

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## Applicable Criteria

Global Bank Rating Criteria (pub. 15 Jul 2016)

<https://www.fitchratings.com/site/re/884135>

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