

Rating Action: Moody's affirms BAWAG's A2 debt and deposit ratings; changes deposit rating outlook to positive from stable

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Outlook for long-term senior unsecured and issuer ratings remains stable

Frankfurt am Main, June 01, 2018 -- Moody's Investors Service today affirmed BAWAG P.S.K.'s (BAWAG) A2 senior unsecured debt, issuer and deposit ratings. At the same time, the rating agency changed the outlook on BAWAG's long-term deposit ratings to positive from stable. The rating outlook for BAWAG's long-term senior unsecured and issuer ratings remains stable. Concurrently, Moody's affirmed BAWAG's Baa2 subordinated debt ratings as well as the bank's P-1 short-term issuer and deposit ratings.

The rating agency further affirmed the bank's baa1 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as the bank's A1(cr)/P-1(cr) Counterparty Risk Assessments.

The positive outlook on the long-term deposit ratings reflects the rating agency's increased confidence that a sustained track record of successful integration and domestic and international roll out of BAWAG's cost-efficient operating model can be achieved.

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 ratings reflects Moody's assessment that the bank's full-year 2017 and first quarter 2018 results confirm its progress towards a successful integration of recently acquired subsidiaries and asset portfolios. In Moody's view, BAWAG's track record of quickly integrated smaller bolt-on acquisitions in Austria positions the bank well to progress in the build-up of a German banking platform around Suedwestbank AG, following the realization of initial efficiency measures at the entity acquired in late 2017.

Following the issuance of a EUR300 million non-cumulative Additional Tier 1 (AT1) capital instrument by its holding company BAWAG Group AG in April 2018, the regulated group improved its leeway to minimum capital requirements. Moody's believes BAWAG's continued strong earnings capacity gives the bank degrees of freedom to strengthen its capitalisation if and when needed. After the closing of the acquisition of Suedwestbank AG in the fourth quarter of 2017, BAWAG's 1 January 2018 fully-loaded Common Equity Tier 1 (CET1) ratio had declined to 13.4%. In the first quarter of 2018, however, the fully-loaded CET1 ratio recovered to 14.0%.

At the same time, the bank's intention to grow organically and through bolt-on acquisitions, particularly in Germany, could result in repeated returns of BAWAG's regulatory fully-loaded (CET1) ratio to a range moderately above the bank management's declared target of 12%. The baa1 BCA also takes into account Moody's expectation that the volatility in BAWAG's reported financial and regulatory metrics will remain in place while the bank continues to pursue inorganic growth opportunities.

Moody's affirmed BAWAG's debt and deposit ratings based on the affirmation of the BCA and because all other rating factors have remained broadly unchanged.

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

Moody's today changed the outlook for BAWAG's long-term deposit ratings to positive from stable to reflect BAWAG's good progress in integrating its acquisition targets, which raises the chance BAWAG will be able to make further progress in establishing a competitive banking platform in Germany over the course of the 12 to 18 months outlook horizon. Profitable growth in Germany would help BAWAG shift the emphasis of its activities further towards granular and diversified retail banking activities, which Moody's expects to contribute to lower asset risk concentrations.

The positive outlook further reflects that the rating agency expects BAWAG to maintain a meaningful cushion of loss-absorbing subordinated and equal-ranking liabilities within its liability structure that will result in an unchanged result for BAWAG's deposits under Moody's Advanced Loss Given Failure (LGF) analysis.

-- UNCHANGED STABLE OUTLOOK ON BAWAG'S LONG-TERM DEBT AND ISSUER RATINGS

The unchanged stable outlook for long-term senior unsecured debt and issuer ratings reflects that the possible improvement in the BCA that leads to the improved outlook for BAWAG's deposit ratings is offset by a currently weaker cushion from BAWAG's liability structure for the bank's senior unsecured creditors that could result in a lower LGF uplift for BAWAG's senior unsecured debt during the 12 to 18 months outlook horizon, if not replenished by sufficient new instrument volumes.

Whereas Moody's expects BAWAG to strengthen its liability structure through the future issuance of junior-senior unsecured debt that Austria intends to introduce from the beginning of the third quarter 2018, these issuance plans may fall short of restoring the minimum debt levels required to allow the bank to the range required for the currently assigned LGF notches. In particular, the issuance plans may be insufficient if BAWAG's balance sheet grows faster than currently anticipated by the bank, for instance as a result of additional acquisitive growth.

-- WHAT COULD MOVE THE RATINGS UP/DOWN

BAWAG's ratings could be upgraded as a result of: (1) maintenance of the bank's improved solvency metrics, in particular if accompanied by the establishment of a track record of successfully integrating acquired operations, and (2) the absence of unduly aggressive or transformative M&A activity.

The bank's ratings could also be upgraded if BAWAG's volume of senior unsecured and subordinated debt instruments increases significantly compared with the bank's tangible banking assets, which could result in additional rating uplift resulting from Moody's Advanced LGF analysis.

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 challenges related to the integration of already acquired portfolios or banks, including Suedwestbank AG; and (3) currently unexpected losses from acquired international portfolios driving up significantly the risk costs of BAWAG.

A downgrade of the issuer and senior unsecured debt ratings could develop if BAWAG's volume of debt instruments fails to recover 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

Issuer: BAWAG P.S.K.

Affirmations:

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

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

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

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

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

...Subordinate (Local Currency), Affirmed at Baa2

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

...Subordinate MTN (Local Currency), Affirmed at (P)Baa2

...Adjusted Baseline Credit Assessment, Affirmed at baa1

...Baseline Credit Assessment, Affirmed at baa1

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

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

Outlook Action:

...Outlook, Changed to Positive(m) from Stable

PRINCIPAL METHODOLOGY

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

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