

Rating Action: Moody's assigns first-time junior senior unsecured debt rating of Baa2 to BAWAG P.S.K.

27 Aug 2019

Frankfurt am Main, August 27, 2019 -- Moody's Investors Service (Moody's) has today assigned a first-time domestic currency junior senior unsecured debt rating of Baa2 to the proposed EUR500 million non-preferred senior unsecured debt issuance of BAWAG P.S.K. (BAWAG, deposits A2 stable/senior unsecured A2 stable, Baseline Credit Assessment baa1).

BAWAG's existing ratings, outlooks and rating inputs are unaffected by today's rating action.

RATINGS RATIONALE

The Baa2 junior senior unsecured debt rating reflects BAWAG's baa1 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as the results of Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in resolution. For BAWAG's junior senior instruments, the rating agency's Advanced LGF analysis indicates a high loss severity in the event of the bank's failure, leading to a positioning of the rating one notch below the bank's BCA.

The rating of this instrument class does not benefit from any government support uplift, in line with Moody's assumption of a low probability of government support to be forthcoming to instruments specifically designated as loss-absorbing in resolution.

BAWAG's baa1 BCA reflects above-average profitability levels among Austrian banking groups. In addition, BAWAG's strong capitalisation provides a sufficient safety buffer to absorb future growth ambitions. In contrast, exposures to real estate as well as non-retail lending and asset books expose BAWAG somewhat to asset risk concentration. Furthermore, it reflects BAWAG's strong deposit funding base and its adequately sized liquid resources.

WHAT COULD CHANGE THE RATINGS UP / DOWN

The rating of the junior senior unsecured debt instruments could be upgraded if the BCA of BAWAG is upgraded. Upward pressure on BAWAG's BCA 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.

Further, the rating could be upgraded following a significant increase in the volume of junior senior unsecured debt, subordinated debt or low-trigger Additional Tier 1 capital instruments, beyond Moody's current expectations. This may lead to rating uplift under Moody's Advanced LGF analysis for this debt class.

The rating of the junior senior unsecured debt instruments could be downgraded following a downgrade of BAWAG's BCA. Downward pressure on BAWAG's BCA could be triggered by (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.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating 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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