MOODY'S INVESTORS SERVICE

Rating Action: Moody's assigns definitive Aa2 rating to BAWAG P.S.K. Mortgage Covered Bonds

Global Credit Research - 28 Feb 2012

Frankfurt am Main, February 28, 2012 -- Moody's Investors Service has today assigned a definitive long-term rating of Aa2 to the mortgage covered bonds issued by BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (BAWAG or "the issuer"), under the Austrian covered bond act.

RATINGS RATIONALE

As with all covered bonds, these benefit from two layers of protection by having recourse to both the issuer and a collateral pool in order to meet timely payment of interest and principal on the bonds. The rating therefore takes into account the following factors:

1) The credit strength of the issuer, rated Baa2/Prime-2.

2) The value of the cover pool. The mortgage covered bonds are backed by Austrian residential and commercial real-estate loans.

Other key factors:

3) The issuer must maintain, on committed and uncommitted basis, minimum over-collateralisation consistent with the covered bond rating. The current minimum to achieve an expected loss commensurate with the Aa2 rating of the covered bonds is 12.5% on a nominal basis, of which 5.5% is provided in committed form.

4) The Austrian legal framework for covered bonds. The covered bonds are governed by the Austrian covered bond act (Gesetz betreffend fundierte Bankschuldverschreibungen). Furthermore, BAWAG commits to a present-value test, which also provides for a minimum 2% over-collateralisation calculated on a stressed present value basis.

The total value of the assets in the cover pool is EUR 708 million. The loans are extended to residential borrowers (73.4%) and commercial borrowers (26.6%), primarily in Vienna, Lower Austria and Styria.

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.

The Aa2 rating assigned to the covered bonds is expected to be assigned to all subsequent covered bonds issued under this programme. This is subject to any subsequent future rating actions in relation to the issuer's covered bonds, which 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 its rating of Baa2, and the stressed losses on the cover pool assets following issuer default.

The cover pool losses for this programme are 19.8%.This is an estimate of the losses Moody's currently models in the event of issuer default. Cover pool losses can be split between market risk of 13.8% and collateral risk of 6.0%. Market risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from the credit quality of the cover pool assets. Collateral risk is derived from the collateral score, which for this programme is currently 9.0%.

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.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the credit strength of the issuer.

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 Probable, the TPI Leeway for this programme is "0" notches, meaning that covered bonds may be downgraded if the issuer rating were to be downgraded, all other variables being equal.

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 value of the cover pool.

For further details on Cover Pool Losses, Collateral Risk, Market Risk, Collateral Score and TPI Leeway across all covered bond programmes rated by Moody's please refer to "Moody's EMEA Covered Bonds Monitoring Overview", published quarterly. These figures are based on the most recent cover pool information provided by the issuer and are subject to change over time.

RATING METHODOLOGY

The principal methodology used in this rating was Moody's Approach to Rating Covered Bonds published in March 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Information sources used to prepare the 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.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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