

**Announcement: Moody's affirms Aaa rating of BAWAG P.S.K.'s Public Sector Covered Bonds after merger of Cover Pools**

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Global Credit Research - 02 Sep 2008

Madrid, September 02, 2008 -- Moody's Investors Service has affirmed the Aaa ratings of the outstanding Fundierte Bankschuldverschreibungen (public-sector covered bonds) issued by Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse AG ("BAWAG P.S.K.", rated Baa1/Prime-2/D) following the merger of the two existing public-sector Cover Pools: the "Special Cover Pool", which is exclusively backed by Republic of Austria exposures (rated Aaa); and the "General Cover Pool" predominantly backed by claims against Austrian regional and local entities.

In addition, BAWAG P.S.K. has agreed contractually and publicly for the benefit of the covered bond holders to hold an amount of over-collateralisation (7% on a net-present value basis), which is over and above the statutory level of 2%.

Moody's understands from the information received from legal advisors to BAWAG P.S.K. that the merger of the two cover pools and the agreement to maintain such level of over-collateralisation are legal, valid, binding and enforceable pursuant to Austrian law, and that as a result of the merger, the outstanding series from the two existing programmes will be backed by a single combined cover pool, and that holders of such covered bonds will rank pari-passu amongst each other. Moody's also understands from legal advisors to BAWAG P.S.K. that there is a potential risk that the agreement to maintain 5% in excess of the legally required 2% of over-collateralisation might be subject to rescission under relevant bankruptcy law of Austria if BAWAG P.S.K. were to become bankrupt within the following 60 days of its conclusion. However, Moody's regards this claw-back risk as very low in its analysis.

This rating affirmation is based on the following key factors underlying BAWAG P.S.K.'s issuance of covered bonds:

- (i) Moody's view of the credit quality of the cover pool along with the composition of its current assets and liabilities;
- (ii) the support provided to the cover pools by BAWAG P.S.K. as issuer;
- (iii) the additional protection provided by BAWAG P.S.K., having elected under the Austrian Covered Bank Bond Act (Gesetz über Fundierte Bankschuldverschreibungen) to include in its articles of association a requirement to match the cover pool and covered bonds in accordance with a net present value ("NPV") test which also provides for at least 2% over-collateralisation (calculated on an NPV basis); and
- (iv) the additional amount of collateral over and above the statutory level that will be in a form that is sufficient for Moody's to give value to this. BAWAG P.S.K. is expected to keep this in place as long as its long-term senior unsecured rating remains below A3.

The ratings address the expected loss posed to investors by the legal final maturity. 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.

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