

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Baa2 issuer ratings to BAWAG P.S.K. Bank fuer Arbeit und Wirtschaft und Oesterreichische Postsparkasse AG; outlook negative

Global Credit Research - 15 Dec 2014

Short-term issuer ratings assigned at Prime-2

Frankfurt am Main, December 15, 2014 --

Moody's Investors Service has today assigned Baa2 long-term and Prime-2 short-term issuer ratings to BAWAG P.S.K. Bank fuer Arbeit und Wirtschaft und Oesterreichische Postsparkasse AG (BAWAG P.S.K.). The outlook on the long-term issuer ratings is negative.

RATINGS RATIONALE

Moody's explains that the Baa2 long-term and Prime-2 short-term issuer ratings are assigned at the same level as BAWAG P.S.K.'s existing senior unsecured debt ratings.

The alignment of the ratings reflects Moody's assessment of the bank's overall satisfactory financial fundamentals after continued de-risking of its balance sheet, significant strengthening of capital adequacy ratios, as well as the progressive recovery in the bank's profitability.

At the same time, the rating agency takes into account some tail risk in the bank's overall asset mix due to BAWAG P.S.K.'s exposures to peripheral euro-area and higher-rated structured credit assets as well as the bank's more recent expansion into higher-yielding international corporate and commercial real-estate portfolios.

Further, the long-term ratings incorporate two notches of systemic uplift from BAWAG P.S.K.'s standalone BFSR/BCA of D+/ba1. The negative outlook on the long-term ratings reflects the rating agency's view that the balance of risk for banks' senior unsecured creditors had shifted to the downside following the adoption of the Bank Recovery and Resolution Directive (BRRD) in Europe which will be transposed into national legislation in Austria as of 1 January 2015.

WHAT COULD MOVE THE RATING - UP /DOWN

Upward pressure on BAWAG P.S.K.'s standalone BFSR and long-term ratings could result from (1) a continued faster and more pronounced business performance in client-facing core businesses; (2) strong and further improving financial fundamentals coupled with an ongoing de-risking of its business profile; and (3) sustained improvement in absolute as well as relative capital metrics coupled with very high earnings retention rates.

Downward pressure could be exerted on the bank's BFSR if (1) the bank's financial strength or franchise strength were to deteriorate; (2) the expansion of the domestic branch network does not lead to a meaningful improvement in underlying core revenues and earnings; (3) the bank's risk profile does not improve or even weakens; and (4) BAWAG P.S.K. is unable to continue building a high-quality capital buffer displaying a meaningful buffer over and above the capital requirements under the Basel III regime and/or as set by the Austrian regulator.

BAWAG P.S.K.'s long-term ratings could be downgraded if Moody's were to lower its assessment of the high probability of systemic support currently factored into the bank's long-term ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Global Banks published in July 2014. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

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