

**ISSUER COMMENT**

## BAWAG's Acquisition of Paylife's Consumer Business Is Credit Positive

From [Credit Outlook](#)

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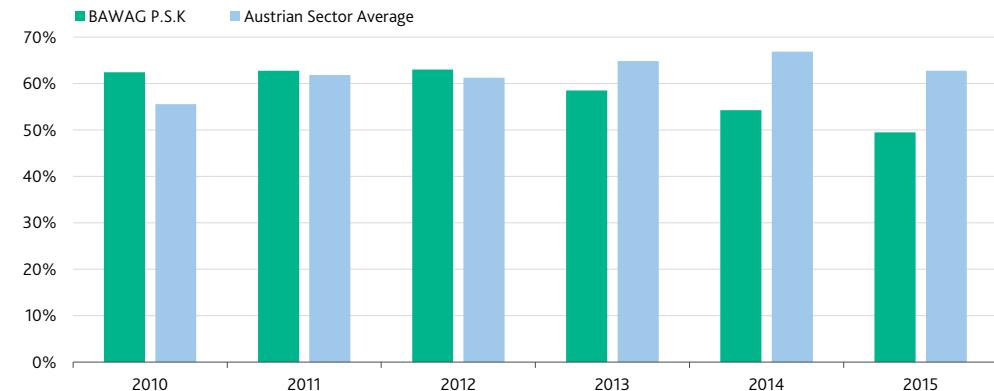
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On Tuesday, Austrian bank [BAWAG P.S.K.](#) (A3/A3 positive, baa2<sup>1</sup>) said that it had agreed to acquire SIX Group Ltd.'s (unrated) Paylife-branded Austrian credit and debit card issuing business for an undisclosed amount. The acquisition is credit positive for BAWAG because it will strengthen the bank's presence in the domestic and adjacent German-speaking retail banking markets.

We expect that BAWAG will be able to expand its superior operational efficiency in its home market. Over the past years, BAWAG's management has proven its ability to set the benchmark in operational efficiency in Austria's retail banking sector, as reflected in a cost-to-income ratio that outperforms other Austrian banks (see exhibit).

### BAWAG's Cost-to-Income Ratio versus Other Moody's-Rated Austrian Banks



Sources: Company reports and Moody's Investors Service

Paylife is one of Austria's leading merchant acquirers and payment transaction processors, but BAWAG is only acquiring the consumer-focused card-issuing business, which has been Austria's leading card issuer with 1.7 million debit and credit cards outstanding currently, according to SIX. Its closest rival is [card complete Service Bank AG](#) (Baa1 stable, ba1), which had 1.5 million cards in circulation as of year-end 2016.

**What is Moody's Credit Outlook?**

Published every Monday and Thursday morning, Moody's [Credit Outlook](#) informs our research clients of the credit implications of current events.

<sup>1</sup> The bank ratings shown in this report are the banks' deposit ratings and outlook, senior unsecured debt ratings (where available) and outlook and their baseline credit assessments

We expect that the acquisition will follow a similar pattern as that of start:Bausparkasse (unrated) and IMMO-BANK (unrated), which BAWAG closed in 2016. In both cases, BAWAG acquired specialized companies with the aim to apply its own streamlined processes to the acquisition targets, while benefitting from the specific knowledge of the acquired sector specialists.

The parties aim to complete the acquisition in the second half of 2017, with retroactive effect as of 28 February 2017. BAWAG in its 7 March joint [press release](#) with SIX said that the card-issuing business will be profitable from day one. We believe Paylife's issuing business' results are likely to have been negatively affected by a decline in fee income in 2016 following a reduction in handling (interchange) fees in Austria for card transactions. By contrast, the interchange fee reduction is likely to have benefitted the 2016 results of the merchant acquiring segment that SIX is keeping owing to lower fee payment obligations.

When it released its full-year results preview last month, BAWAG announced that it plans to retain its €484 million 2016 full-year profit and significant future cumulative net income of €1.5-€2 billion over the next three years. This additional capital cushion will allow the bank to pursue additional and larger acquisition targets in Austria, Germany and Switzerland, the markets where BAWAG identifies growth opportunities. Based on recent transactions, including the Paylife purchase, in which BAWAG acquired either smaller firms with niche sector expertise or static mortgage loan portfolios in Western Europe, we do not expect future large transactions to deviate significantly from these patterns.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

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