



Rating_Action: Moody's affirms BAWAG P.S.K. AG's A2 deposit and senior unsecured ratings; outlook changed to positive

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All other ratings of BAWAG P.S.K. AG and BAWAG Group AG were also affirmed

Frankfurt am Main, February 24, 2023 – Moody's Investors Service (Moody's) has today affirmed the ratings of BAWAG P.S.K. AG (BAWAG), including its A2 long-term deposit, senior unsecured, and long-term issuer ratings, its Baa1 junior senior unsecured rating, and its Baa2 subordinate rating. The outlook on the long-term deposit, senior unsecured, and long-term issuer ratings was changed to positive from stable. Concurrently, the rating agency affirmed BAWAG's baa1 Baseline Credit Assessment (BCA) and its baa1 Adjusted BCA, as well as BAWAG Group AG's (BAWAG Group) Baa2 subordinate and Ba1(hyb) preferred stock non-cumulative ratings.

A full list of affected ratings and rating inputs can be found at the end of this press release.

RATINGS RATIONALE

-- AFFIRMATION OF BAWAG'S BASELINE CREDIT ASSESSMENT

The affirmation of BAWAG's baa1 BCA, which is based on the consolidated group financials of its parent BAWAG Group, considers that the bank's combined solvency and liquidity profiles have remained resilient during the pandemic and the geopolitical crisis so far. Furthermore, the bank's profitability is expected to improve materially in 2023 due to higher interest rates and despite the headwinds from inflation and a deteriorated credit environment.

With a problem loan ratio below 2% as of year-end 2022, BAWAG continues to exhibit sound asset quality metrics, but material unsecured consumer and corporate lending could lead to an uptick in problem loans in the weakened credit environment. Furthermore, a commercial real estate book, with a majority of assets being financed in the US and Ireland, exposes the bank to highly volatile property markets. The bank's satisfying risk-weighted capitalization and sound leverage, as expressed in a Common Equity Tier 1 (CET1) to risk-weighted assets (RWA) ratio of 13.5% and a regulatory leverage ratio of 5.6% as of 31 December 2022, in combination with its strong profitability, which Moody's expects to reach more than 1% in relation to tangible assets, provide sufficient protection against these asset risks.

While Moody's does not expect that BAWAG's capitalisation will benefit from the improved profitability in a baseline scenario given the bank's policy to return excess capital to shareholders via share buybacks or dividends – or utilize the excess capital for bolt-on acquisitions, which also entail execution risks – the bank's capitalisation provides for sound protection if asset risks were to materialise.

BAWAG's BCA also takes into account the group's sound funding and liquidity profile, which the rating agency does not expect to change materially in the future. While the bank plans to repay

its remaining €3.4 billion of targeted long-term refinancing operations (TLTRO) III drawings by June this year - thereby reducing its market funding dependence but also its liquidity balances - Moody's expects that additional issuance of covered bonds and unsecured instruments to fund the expansion of the bank's investment portfolio will result in an overall unchanged combined liquidity profile.

-- AFFIRMATION OF SHORT-TERM AND LONG-TERM RATINGS

The affirmation of BAWAG's and BAWAG Group's ratings follows the affirmation of BAWAG's baa1 Adjusted BCA, which incorporates no affiliate support uplift from the baa1 BCA.

Furthermore, the affirmation reflects unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss in resolution for BAWAG's different liability classes, and which continues to indicate an extremely low loss given failure for counterparty risk liabilities, resulting in three notches of rating uplift; a very low loss given failure for deposits, senior unsecured debt, and the issuer ratings, resulting in two notches of rating uplift; a moderate loss given failure for junior senior unsecured debt, resulting in no rating uplift; and a high loss given failure for subordinated debt, resulting in a one notch deduction from the bank's baa1 Adjusted BCA.

Finally, the affirmation incorporates an unchanged assumption of a low likelihood of sovereign government support, not resulting in rating uplift

The Ba1(hyb) ratings of the low-trigger Additional Tier 1 instruments (non-cumulative preferred stock) issued by BAWAG Group continue to be positioned three notches below BAWAG's baa1 Adjusted BCA, reflecting the high loss given failure for these instruments as well as the securities' non-cumulative coupon deferral features.

-- OUTLOOK CHANGED TO POSITIVE

The positive outlook on the bank's long-term deposit and senior unsecured debt ratings reflects Moody's view that BAWAG's BCA and Adjusted BCA, and hence its long-term ratings, could be upgraded if BAWAG is able to maintain its current asset quality metrics and reach a sustainably higher profitability level, while preserving its sound capitalisation, funding, and liquidity profiles. Moody's also considers that BAWAG will maintain sufficient volumes of bail-in-able liabilities safeguarding the currently assigned rating uplift resulting from the rating agency's Advanced LGF analysis.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

As indicated by the positive outlook, an upgrade of BAWAG's and BAWAG Group's long-term ratings could result from an upgrade of BAWAG's baa1 BCA and Adjusted BCA. An upgrade of select ratings could also be triggered by additional rating uplift as a result of Moody's Advanced LGF analysis.

BAWAG's BCA and Adjusted BCA could be upgraded if the bank's problem loan formation remains contained in the more challenging economic environment and if its profitability improves materially and sustainably, while the bank's capitalisation, funding, and liquidity profiles remain sound.

BAWAG's deposit, senior unsecured, issuer, junior senior unsecured, and subordinate ratings may also be upgraded if the volume of debt instruments designed to absorb losses prior to the respective debt classes increases sufficiently in relation to the bank's tangible banking assets,

which could result in additional rating uplift resulting from Moody's Advanced LGF analysis.

A downgrade of BAWAG's ratings is currently unlikely but could be triggered following a downgrade of the bank's baa1 BCA and Adjusted BCA, or as a result of fewer notches of rating uplift from Moody's Advanced LGF analysis.

The bank's BCA could be downgraded because of a pronounced decline in the quality of BAWAG's investment and loan portfolios, or because of integration risks materializing from the bank's acquisitions. In addition, levels of capital and earnings substantially below the rating agency's expectations, as well as a higher-than-expected reliance on market funding and materially lower liquid resources, could trigger a downgrade of the BCA.

BAWAG's deposit, senior unsecured, issuer, and junior senior unsecured ratings could be downgraded if the combined volume of debt instruments designed to absorb losses prior to the respective debt classes declines sufficiently, which would lead to lower rating uplift from Moody's Advanced LGF analysis. A lower volume of outstanding senior unsecured instruments could also lead to lower rating uplift for the bank's deposit, senior unsecured, and issuer ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

LIST OF AFFECTED RATINGS

Issuer: BAWAG Group AG

..Outlook: NOO

..Affirmations:

....Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Baa2

....Pref. Stock Non-cumulative (Local Currency) , Affirmed Ba1 (hyb)

Issuer: BAWAG P.S.K. AG

..Outlook Actions:

....Outlook, Changed To Positive From Stable

..Affirmations:

....LT Counterparty Risk Assessment , Affirmed A1(cr)

....ST Counterparty Risk Assessment , Affirmed P-1(cr)

....LT Counterparty Risk Rating (Local Currency) , Affirmed A1

....ST Counterparty Risk Rating (Local Currency) , Affirmed P-1

....LT Bank Deposits (Foreign Currency) , Affirmed A2, outlook changed to POS from STA

....LT Bank Deposits (Local Currency) , Affirmed A2, outlook changed to POS from STA

....ST Bank Deposits (Foreign Currency) , Affirmed P-1

....ST Bank Deposits (Local Currency) , Affirmed P-1

....LT Issuer Rating (Foreign Currency) , Affirmed A2, outlook changed to POS from STA

....LT Issuer Rating (Local Currency) , Affirmed A2, outlook changed to POS from STA

....ST Issuer Rating (Foreign Currency) , Affirmed P-1

....ST Issuer Rating (Local Currency) , Affirmed P-1

....Senior Unsecured Regular Bond/Debenture (Foreign Currency) , Affirmed A2, outlook changed to POS from STA

....Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed A2, outlook changed to POS from STA

....Senior Unsecured Medium-Term Note Program (Local Currency) , Affirmed (P)A2

....Junior Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed Baa1

....Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Baa2

....Subordinate Medium-Term Note Program (Local Currency) , Affirmed (P)Baa2

....Adjusted Baseline Credit Assessment , Affirmed baa1

....Baseline Credit Assessment , Affirmed baa1

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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