MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms BAWAG P.S.K. AG's A1 long-term deposit and senior unsecured ratings, changes outlook to positive

21 May 2025

Frankfurt am Main, May 21, 2025 -- Moody's Ratings (Moody's) has today affirmed BAWAG P.S.K. AG's (BAWAG) A1 long-term deposit, long-term senior unsecured debt and long-term issuer ratings. We also affirmed its Baa1 junior senior unsecured debt rating, its (P)A1 senior unsecured MTN program rating and its (P)Baa2 subordinate MTN program rating. The outlook on the long-term deposit, senior unsecured, and long-term issuer ratings was changed to positive from stable.

Concurrently, we affirmed BAWAG's baa1 Baseline Credit Assessment (BCA) and its baa1 Adjusted BCA, its P-1 short-term deposit and issuer ratings, its Aa3/P-1 long- and short-term Counterparty Risk Ratings (CRR), as well as its Aa3(cr)/P-1(cr) long- and short-term Counterparty Risk Assessments. At the same time, BAWAG Group AG's (BAWAG Group) Baa2 subordinate and Ba1(hyb) preferred stock non-cumulative ratings have also been affirmed.

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, takes account of the bank's improving solvency and its maturing business profile.

BAWAG continues to exhibit sound asset quality metrics,and has established a track record of prudent risk management. Our views around the bank's risk management are reflected in BAWAG's unchanged governance issuer profile score (IPS) of G-2, supporting the bank's CIS-2 credit impact score under our General Principles for Assessing Environmental, Social and Governance Risks methodology.

The baa1 BCA also reflects the bank's solid and stable risk-weighted capitalisation and sound leverage, that – in combination with its strong profitability – provide good protection against the aforementioned asset risks.

While we expect BAWAG's policy to return excess capital to shareholders via share buybacks or dividends – or utilize it for acquisitions – to remain unchanged, the bank's overall business profile has almost reached its target structure following the most recent and larger acquisitions of Knab N.V. and Barclays Consumer Bank Europe. While execution and integration risks remain, we expect BAWAG's future organic as well as inorganic growth to be centered around its established asset and geographical mix.

BAWAG's baa1 BCA also takes into account the group's sound funding and liquidity profile, which we expect will remain focused on the bank's retail deposit franchise, accompanied by the issuance of covered bonds and some senior unsecured securities, supporting a continued strong liquidity cushion providing good protection against outflow risks.

-- 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 our 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 moderate likelihood of sovereign government support, resulting in one notch of rating uplift for the long-term deposit, issuer and senior unsecured ratings and the bank's more senior liabilities.

The Ba1(hyb) rating of the low-trigger Additional Tier 1 instruments (non-cumulative preferred stock) issued by BAWAG Group continues 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, issuer and senior unsecured debt ratings reflects the possibility that BAWAG's continued progress in executing on its to-be-integrated recent acquisitions and steadying its business performance could result in a sustainably improved financial profile, that in time would support consideration of an upward rating shift.

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

BAWAG's and BAWAG Group's long-term ratings could be upgraded as a result of an upgrade of BAWAG's BCA. An upgrade of the bank's long-term ratings could also be triggered by material additional volumes of bail-in-able instruments being issued, such that it results in additional rating uplift from our Advanced LGF analysis for the respective debt classes.

BAWAG's BCA could be upgraded if the bank's prudent risk management continues to result in below-average problem loans, that – in combination with a stable profitability and capitalisation as well as a continued sound funding and liquidity profile – supports the bank in maintaining its achieved intrinsic financial strength.

BAWAG's ratings could be downgraded as a result of a downgrade of its BCA or fewer notches of rating uplift from our Advanced LGF analysis.

The bank's BCA could be downgraded if BAWAG suffers a sudden and sharp setback in successfully integrating the acquired franchises or if it embarked on a transformative additional merger displaying an undue risk appetite, making it less likely that the bank meets its strategic milestones, particularly if it leads to a weakening of its solvency profile. The BCA could also be downgraded if the bank's asset quality deteriorates unexpectedly and beyond our current expectations or if its capital and earnings erode towards levels substantially below our expectations, combined with a higher-than-expected reliance on market funding and materially lower liquid resources.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at https://ratings.moodys.com/rmc-documents/432741. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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.moodys.com/rating-definitions.

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