

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms BAWAG P.S.K. AG's A1 long-term deposit and issuer ratings, outlook changed to stable

29 May 2024

Frankfurt am Main, May 29, 2024 -- Moody's Ratings (Moody's) has today affirmed BAWAG P.S.K. AG's (BAWAG) A1 long-term deposit, issuer and senior unsecured ratings, and changed the outlook on these to stable from positive. Concurrently, the rating agency affirmed the bank's Aa3 long-term Counterparty Risk Rating (CRR), its (P)A1 long-term senior unsecured MTN program rating, its Baa1 junior senior unsecured rating and its (P)Baa2 subordinate MTN program rating, as well as its P-1 short-term CRR, deposit and issuer ratings. Also, Moody's affirmed BAWAG Group AG's (BAWAG Group) Baa2 subordinate debt rating and Ba1(hyb) preferred stock non-cumulative ratings.

Further, the rating agency affirmed BAWAG's baa1 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as Aa3(cr)/P-1(cr) long and short-term Counterparty Risk (CR) Assessment.

RATINGS RATIONALE

-- AFFIRMATION OF BAWAG'S BASELINE CREDIT ASSESSMENT

The affirmation of BAWAG's BCA at baa1 considers the bank's good combined solvency and liquidity profiles, as reflected in good asset quality and strong profitability despite a more volatile operating environment, sound capitalisation and a well-balanced funding and liquidity profile, with limited recourse to confidence market funding and sound liquid reserves.

The affirmation further incorporates the bank's acquisitive nature, including its largest deal, the acquisition of Knab Bank N.V. (Knab) [1], a €17.8bn Dutch bank, reflecting both the expected financial implications and execution risks into BAWAG's credit profile. While BAWAG generally has a sound track record of successfully managing a series of M&A deals, the varied business additions somewhat lack a coherent strategic rationale and entail an increasingly complex franchise, potentially offsetting

some business diversification benefits.

With a problem loan ratio of 2% as of year-end 2023, BAWAG continues to exhibit stable and sound asset quality metrics. At the same time, the loan book has some concentrated exposure to commercial real estate and unsecured consumer and corporate lending, all more correlated to economic cycles. The bank's sound capitalization in combination with its strong profitability, provides good investor protection against asset risks, despite a shareholder friendly distribution policy and acquisitions.

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. 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- AND LONG-TERM RATINGS

The affirmation of BAWAG's and BAWAG Group's long-term ratings follows the affirmation of BAWAG's baa1 Adjusted BCA and 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 the subordinated MTN, resulting in a rating one notch below the bank's baa1 Adjusted BCA.

The affirmation also incorporates an unchanged assumption of a moderate likelihood of sovereign government support for senior liabilities, resulting in a one notch rating uplift for the long-term deposit, issuer and senior unsecured ratings.

The Ba1(hyb) ratings of the low-trigger Additional Tier 1 instruments (non-cumulative preferred stock) issued by BAWAG Group continue to be rated 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 STABLE

The stable outlook on the bank's long-term deposit, long-term issuer and senior unsecured debt ratings reflects Moody's view that BAWAG will be able to maintain its current asset quality metrics and profitability level, while preserving its sound capitalisation, funding, and liquidity profiles, despite the sizeable Knab acquisition and further M&A appetite. The rating agency also considers that BAWAG will maintain sufficient volumes of bail-in-able liabilities safeguarding the current rating uplift

resulting from the rating agency's Advanced LGF analysis.

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

An upgrade of BAWAG's and BAWAG Group's long-term ratings could result from an upgrade of BAWAG's BCA. An upgrade also be triggered by additional rating uplift as a result of Moody's Advanced LGF analysis.

BAWAG's BCA could be upgraded following a strengthening of its financial profile, for example through a reduced exposure to volatile asset classes such as commercial real estate, an improved business profile with a complimentary acquisition strategy or a more contained M&A appetite, and a successful integration of planned acquisitions.

BAWAG's long-term deposit, senior unsecured, issuer, junior senior unsecured, and subordinate MTN program 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, such that it results in additional rating uplift resulting from Moody's Advanced LGF analysis.

A downgrade of BAWAG's ratings could be triggered following a downgrade of the bank's 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 integration risks materializing from the bank's acquisitions to a more meaningful extent as currently expected by Moody's. In addition, a combination of a meaningful decline in asset quality, levels of capital and earnings below the rating agency's expectations, as well as a higher-than-expected reliance on market funding and sustainably lower liquid resources, could result in a downgrade.

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 could 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 March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. 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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The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

REFERENCES/CITATIONS

[1] Ad-Hoc Release BAWAG ACQUIRES KNAB FROM A.S.R NEDERLAND NV 01-Feb-2024

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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