MOODY'S INVESTORS SERVICE

Credit Opinion: BAWAG P.S.K.

Global Credit Research - 14 Jan 2011

Vienna, Austria

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa1/P-2
Bank Financial Strength	D
Senior Unsecured	Baa1
Senior Subordinate -Dom Curr	Baa2
BAWAG Capital Finance (Jersey) II Limited	
Outlook	Stable
Preference Stock	B2
BAWAG Capital Finance (Jersey) Ltd	
Outlook	Stable
Bkd Preference Stock	B2
BAWAG Capital Finance (Jersey) III Limited	
Outlook	Stable
Preference Stock	B2

Contacts

Analyst	Phone
Claude Raab/Frankfurt am Main	49.69.707.30.700
Dominique Nutolo/Frankfurt am Main	
Carola Schuler/Frankfurt am Main	
Frederic Chonion/London	44.20.7772.5454

Key Indicators

BAWAG P.S.K. (Consolidated Financials)[1]

	[2]**6-10**	[2]**12-09**	[2]**12-08**	[3]**12-07**	[3]**12-06**	**Avg.**
Total Assets (EUR million)	**42,780.00**	**41,461.00**	**41,818.00**	**45,083.00**	**50,806.00**	[4]**-4.21**
Tangible Common Equity (EUR million)	**1,180.30**	**1,400.15**	**1,164.11**	**1,711.00**	**1,414.69**	[4]**-4.43**
Total Assets (USD million)	**52,401.43**	**59,485.79**	**58,129.00**	**65,913.71**	**66,995.45**	[4]**-5.96**
Tangible Common Equity (USD million)	**1,445.76**	**2,008.85**	**1,618.17**	**2,501.57**	**1,865.49**	[4]**-6.17**
PPI / Avg RWA	**1.64%**	**2.20%**	**-3.11%**	**0.44%**	**0.78%**	[5]**0.24%**
Net Income / Avg RWA	**0.78%**	**0.83%**	**-2.98%**	**-1.70%**	**0.30%**	[5]**-0.46%**
(Market Funds - Liquid Assets) / Total Assets	**5.97%**	**13.73%**	**15.04%**	**19.33%**	**31.29%**	[6]**17.07%**
Core Deposits / Average Gross Loans	**94.32%**	**104.68%**	**107.29%**	**95.30%**	**90.58%**	[6]**98.44%**
Tier 1 Ratio	**8.70%**	**10.00%**	**6.60%**	**8.15%**	**8.98%**	[5]**8.43%**
Tangible Common Equity / RWA	**4.57%**	**6.24%**	**5.03%**	**6.75%**	**4.93%**	[5]**5.28%**
Cost / Income Ratio	**61.09%**	**53.49%**	**-1,855.22%**	**88.03%**	**79.74%**	[6]**-314.57%**
Problem Loans / Gross Loans	**5.00%**	**5.56%**	**4.33%**	**4.90%**	**--**	[6]**4.95%**
Problem Loans / (Equity + Loan Loss Reserves)	**38.76%**	**39.86%**	**44.05%**	**36.70%**	**--**	[6]**39.84%**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] Basel II & IFRS reporting periods have been used for average calculation [6] IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of D (stable outlook) to BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse AG (BAWAG), which translates into a Baseline Credit Assessment (BCA) of Ba2. The BFSR reflects the overall modest financial metrics, which are still in the process of being gradually restored after the bank's significant losses in 2007-08 in the context of the adverse market conditions, and in 2006 as a result of covert speculative activities by former senior management. The rating also takes into account the gradual improvements in risk culture and corporate governance instigated by the new management appointed after the sale of the bank, in 2007, to the US-based private equity firm Cerberus, as well as the improving franchise resulting from the management's strategy to focus on core Austrian business and to reinforce its cooperation with Austria's Post AG (unrated), the incumbent provider of postal and logistics services, and previous owner of Österreichische Postsparkasse (P.S.K.), which was acquired by BAWAG in 2005.

BAWAG's long-term global local currency (GLC) deposit rating of Baa1 (stable outlook) is underpinned by the bank's BCA of Ba2 and Moody's assessment of a very high probability of systemic support for the bank in the event of a stress situation, resulting in a four-notch uplift from the BCA.

Credit Strengths

- Comprehensive but underexploited retail network, which accounts for roughly 13% of the Austrian retail banking market, and which will benefit from the reinforced cooperation with Austrian Post

- Changes in senior management have contributed to the introduction of more transparent and appropriate corporate governance and risk management structures

- Past and present support offered by the Austrian federal government and - in the past - by major Austrian financial institutions clearly illustrates the bank's importance to the domestic retail banking market

- Capital levels restored recently by contributions from the bank's shareholders, and the Austrian government to levels more commensurate with the risk profile of the institution

Credit Challenges

- Improving the risk culture and establishing a strong track record through the full implementation of - and adherence to - new and more robust risk management procedures and corporate governance practices

- Financial fundamentals remain modest, with below-average risk-adjusted earnings power and weak efficiency

- Significant exposure to structured credit products, with a portfolio of EUR 957 million at end-June 2010, with further losses possible after the already high impairments taken

Rating Outlook

The outlook on the D BFSR is stable and reflects Moody's view that the bank's financial and operational profile has stabilised under BAWAG's new management team and the strategy supported by its new group of owners, led by Cerberus. The outlook on all the other ratings is also stable.

What Could Change the Rating - Up

A strengthening of BAWAG's standalone financial and business profile as a result of the bank's new strategy could result in upward pressure on the BFSR. Furthermore, substantial, sustained and transparent improvements in business practices (risk culture and management, corporate governance, financial reporting and disclosure) could positively affect the BFSR over the medium term. We note positively that the new management team and owners are committed to such changes with considerable progress having already been made.

Individual factors representing positive implications for the BFSR over the medium term include: (i) successful implementation of the bank's strategy to focus on the core Austrian market; (ii) markedly stronger performance in client-facing business and reduced dependence on capital markets and ALM activities; (iii) better exploitation of the P.S.K. retail franchise; (iv) significantly stronger financial fundamentals; (v) ongoing commitment by the new owners and evidence of establishing a strengthened, sustainable commercial and financial profile for the bank; and (vi) the strengthening of the capital base by the current shareholders and the Republic of Austria.

Moody's, however, stresses that a potential future improvement of BAWAG's BFSR is unlikely to result in a higher long-term rating, given that BAWAG already benefits from a four-notch uplift from its BCA, which is already high compared to its peers.

What Could Change the Rating - Down

Negative pressure could be exerted on the BFSR if the bank's financial strength or franchise strength were to weaken. Individual factors representing adverse implications over the medium term include: (i) persistent losses; (ii) a lack of improvement in the risk profile; and (iii) an inability to restore solid franchise value. Any lowering of the probability of systemic support could also adversely affect the long-term ratings.

RECENT RESULTS AND COMPANY EVENTS

H1 2010 Results

During 2010, BAWAG continued to gradually improve its financials metrics, and the bank is expected to generate a positive net income for the full year for the first time since 2006: the bank recorded severe losses in previous years (EUR 22 million net loss in 2009, EUR 538 million loss in 2008 and EUR 452 million in 2007, in the wake of the global financial crisis and of its ownership change). For the full year 2010, BAWAG forecasts a net income of over EUR 100 million.

For the first six months 2010, BAWAG's operating income rose 5.2% at EUR 533 million, with a positive contribution both from net interest income - up 2.3% at EUR 309 million (despite a low interest rate environment), and from fee & commission income - up13% at EUR 84 million (due to revived client activity). At the same time, gains on financial assets were stable at EUR 130 million. Coupled with stable operating expenses, the bank's operating profit improved to EUR 223 million. The absence of negative one-off effects (such as those observed in the previous years) and the lower level of loan loss provisions of EUR 110 million (or -12% compared to the same period in 2009) resulting from its more conservative risk profile enabled BAWAG to generate a pre-tax income of EUR 107 million (H1 2009: EUR 66 million), and a net income of EUR 97 million at end-June 2010 (H1 2009: EUR 13.3 million).

BAWAG's total assets increased to EUR 42.8 billion as of 30 June 2010, up EUR 1.6 billion from year-end 2009, reflecting the bank's growth in customer loans. The Tier-1 ratio was at 8.7%, lower than the 10% year-end 2009 level, due to a 15% increase in risk weighted assets (RWAs) (this is itself the result of higher credit risks resulting from business growth, and from the cancellation of the EUR 400 million guarantee from the Republic of Austria for the structured credit book which had been granted in the assistance package).

Year-end 2009 Results

In 2009, BAWAG partly restored its financial metrics after heavy losses in 2008 and 2007, but still ended the year with a net loss of EUR 22 million. For 2009, BAWAG's operating income doubled to EUR 888 million compared to its performance in 2008, but this was mainly driven by gains on financial assets: while net interest income weakened by 16% to EUR 564 million due to the low interest rate environment and margin compression, this was offset by an 8% increase in fee and commission income at EUR 155 million due to improved sales of securities products, and also by a EUR 325 million trading income (versus a EUR 596 million loss in 2008).

At the same time, the bank significantly reduced its operating expenses, by EUR 100 million (or 16%) to EUR 517 million, through improved productivity as well as staff reductions. Coupled with lower loan loss provisions, down 16% at EUR 237 million (2008: EUR 281 million), the bank reported a pre-tax income of EUR 232 million for 2009 (versus a EUR 804 million loss in 2008). However, bottom-line profitability is affected by the significant contribution of minority interests (EUR 195 million), resulting in a EUR 22 million net loss for year-end 2009.

As at 31 December 2009, BAWAG's assets totalled EUR 41.2 billion (slightly less than at year-end 2008), and its Tier-1 was at 10%, from 6.2% in 2008, following several capital strengthening measures implemented by the bank in 2009.

COMPANY EVENTS

In October 2010, BAWAG and Austrian Post AG announced that they will further expand their existing cooperation, reinforcing their ties and developing cross-selling activities: the two institutions will together develop a joint network of full branches in over 500 locations throughout the country by 2012. Moody's views this development as credit positive for the bank's franchise, as it will enable BAWAG to increase its presence in the country - particularly in rural areas - and reinforce the bank's retail business.

Following the restructuring of the bank, several key management positions were filled to implement Cerberus's revised strategic goals for the bank: the new CEO was appointed in September 2009, followed by a new COO in January 2010, and a new CFO in August 2010. Other appointments in 2010 include a new Head of Corporates and Markets, as well as a Head of Private and Retail Customers. While these changes confirm the objective of BAWAG to maintain the momentum of its retail-focused strategy under Cerberus's ownership, we also see them as a challenge for the bank's continuity, as the new management will need to build its own track record.

DETAILED RATING CONSIDERATIONS

Detailed considerations for BAWAG's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's assigns a D BFSR to BAWAG P.S.K., reflecting its weak profitability, comprehensive but underexploited retail franchise, but equally the positive trend in its capitalisation levels as well as in its corporate governance and risk management practices. As a point of reference, the assigned BFSR is one notch below the outcome of Moody's bank financial strength scorecard.

Qualitative Factors (50%)

Factor 1: Franchise Value

Trend: Improving

BAWAG in one of the largest banking institutions in Austria, providing universal banking services throughout the country, including retail banking, corporate banking and financial markets services. Overall, it is the fifth-largest bank by total assets in Austria, after UniCredit Bank Austria, Erste Group Bank AG, Raiffeisenbankengruppe, and OeVAG. The bank is the result of the merger in 2005 of "BAWAG", the former trade-union bank, and the former postal savings bank Postsparkasse - popularly known as "P.S.K."

BAWAG's ability to conduct business was impaired as a result of (i) severe losses in 2006 caused by the covert speculative activities of former senior management and (ii) its business relationship with failed US brokerage house Refco. These developments necessitated support by the Government of Austria and major Austrian financial institutions until the sale of BAWAG, in 2007, to the US private equity firm Cerberus. Since then, the new owners strived to implement a strategy to rebuild the bank's franchise and brand name; to restore its financial metrics; to introduce a sound risk management culture and strong corporate governance; and to focus on the core Austrian market, divesting non-core assets.

BAWAG enjoys a comprehensive retail banking franchise, commanding roughly 13% of retail deposits in Austria. While the bank had experienced significant deposit outflows during H1 2006, its deposit base has subsequently stabilised and it has reported partial success in recapturing and expanding its savings deposit base. BAWAG benefits from the broad reach of its nationwide network of branches and postal savings locations. However, the bank needs to improve the profitability of its core retail operations and to demonstrate less reliance on earnings from capital markets and ALM activities. Therefore, improving earnings stability from its retail activities is a prerequisite to any reassessment of the bank's franchise value.

The cooperation agreement with Austrian Post, announced in October 2010, to reinforce the ties between the two institutions, further develop a full common branch network throughout the country, and improve cross-selling throughout the group. This will enable BAWAG to significantly improve its reach in rural areas, covering around 80% of the total Austrian population with a target of 522 branches.

BAWAG exited its non-core markets since 2008, selling its activities in Slovakia and the Czech Republic, its real-estate activities, and closed its activities in Ireland, Jersey and the UK.

Moody's views positively the efforts of the new management in rebuilding the bank's franchise, and therefore expects the trend in franchise value to improve going forward.

The overall score for this factor is C-.

Factor 2: Risk Positioning

Trend: Improving

The bank's poor legacy in terms of risk positioning is being progressively reversed by improvements in risk management practices, the effects of which need to be confirmed in the medium term. Our assessment of the bank's risk positioning is therefore still constrained by the previous weaknesses in corporate governance and risk management. BAWAG's losses prior to 2005 were hidden from the public by the bank's former management and revealed weaknesses in its risk management procedures and an excessive risk appetite and culture, all of which is now being addressed by management and the bank's new owners.

Changes in senior management during 2006 had already resulted in the introduction of a more robust risk management framework and a more risk-averse and refocused corporate strategy. Furthermore, since the ownership structure changed in 2007, the bank's management team was strengthened with the addition of internationally experienced executives in areas such as operations and risk management - a new CRO function was created and is now well established. However, at the same time, organisational independence from the owners has been guaranteed.

Our view of an improving trend will require evidence of BAWAG's ability to improve the risk culture and to fully establish a strong track record via full implementation of - and adherence to - the bank's new and more robust risk management procedures and corporate governance practices. Moody's notes positively the initiatives that led to the development of the bank's strict corporate governance principles, the modernisation of its management information systems and internal controls mechanisms, and the improvement of its market risk monitoring, which are all helping to correct past shortcomings.

While BAWAG has published IFRS accounts, its overall disclosure and transparency regarding specific financial performance and risks have notably improved over the past two years and are now closer to international standards. The bank continues to benefit from acceptable liquidity due to its sizeable and growing retail deposit base. During and after its crisis in 2006, the bank has maintained its access to market funds and its liquidity requirements have been comfortably exceeded, despite adverse market conditions. The bank's previously excessive market risks have been significantly reduced.

Moody's believes that the bank is laying the foundations for improvements in risk management and corporate governance, as well as for future growth.

The overall score for risk positioning is currently D.

Factor 3: Regulatory Environment

This factor applies to all banks in Austria. Please refer to the latest Banking System Outlook on Austria for a detailed discussion of the country's regulatory environment.

Factor 4: Operating Environment

Trend: Neutral

The score for Austria's operating environment is A, which applies to all banks in Austria and reflects the overall solid economic fundamentals that underpin the Austrian economy. BAWAG has almost no exposure to other riskier operating environments such as Central and Eastern European (CEE) (totalling less than 5% of total assets), which confirms its focus on the Austrian market.

Quantitative Factors (50%)

Factor 5: Profitability

Trend: Improving

BAWAG's risk adjusted profitability ratios at year-end 2009 started to recover as the bank restored profitability levels following its heavy losses in the previous years. Pre-provision income and net income as a percentage of RWAs stood at 2.09% and -0.02%, respectively (versus -3.08% and -2.09 in 2008). For the first six months 2010, these ratios were at 1.82% and 0.82%, respectively, on an annualised basis.

Moody's views BAWAG's historically low profitability as one the bank's main weaknesses; its profitability remains inferior to most comparable Austrian and European peers and the bank's comprehensive retail banking franchise continues to yield lacklustre core profitability. Although management notes that retail profitability may be understated, the bank has relied on less predictable earnings from capital markets and ALM activities. As the bank's strategy is to focus on core Austrian retail business, Moody's believes that even if the bank restores profitability levels, these could be constrained by the highly competitive and low margins operating environment.

Moreover, the bank faces additional costs related to the government's EUR 550 million participation capital - on which an annual 9.3% interest rate is expected to be paid - and to the EUR 400 million guarantee on the structured credit products portfolio (only for H1 2010 as the guarantee was canceled at this date).

BAWAG expects to post a yearly net income of EUR 100 million for 2010, and we should therefore see improved ratios next year. The bank should resume a more "normal" level of recurrent profitability if it avoids any repeat the heavy negative one-off effects of the previous years.

The overall score for profitability is E, with an improving trend.

Factor 6: Liquidity

Trend: Improving

BAWAG benefits from a sizeable base of core retail funding that underpins its strong liquidity ratios. Sticky retail customer deposits continue to strongly support the bank's overall funding profile. During the crisis in 2006, as well as in the context of adverse market conditions in 2007 and 2008, the bank constantly maintained access to market funding and liquidity requirements were always exceeded.

Moreover, further progress has been made towards rebuilding retail deposits to former levels with a loan-to-deposit ratio of 113% as of H1 2010. We expect the bank to maintain its improved approach to monitoring and enhancing its liquidity management. Success in achieving improved performance at the bank will also help to underscore Moody's expectation that liquidity will remain acceptable.

In addition, the implemented sale of non-core assets in 2008 and 2009 - such as the sale of BAWAG's Czech and Slovak subsidiaries - has enabled the bank to build additional liquidity.

In 2010, BAWAG successfully re-entered the international capital markets - from which it had been absent since 2006 - and issued four public sector covered bonds.

Overall, BAWAG's liquidity ratio (market funds minus liquid assets / total assets) is reasonably positioned at 16.04%.

The overall score for liquidity is C-, with an improving trend.

Factor 7: Capital Adequacy

Trend: Neutral

BAWAG's capital base had been under pressure and was eroded by net losses in 2007-08. The bank's decision in 2009 to strengthen its capital base, with additional capital provided by both existing shareholders and the Republic of Austria, as well as by private investors, successfully increased its capital ratios to more comfortable levels and reinforced the bank's capital cushion.

In April 2009, an agreement had been reached with the Republic of Austria to raise EUR 550 million participation capital and to guarantee EUR 400 million of the bank's risky assets. This agreement was then finalised by year-end 2009. In that year, BAWAG also raised EUR 80 million of Tier 2 qualifying capital, and existing shareholders contributed capital of EUR 205 million.

BAWAG's reported Tier-1 ratio as of 30 June 2010 was 8.7%, and declined versus the 10% reported at year-end 2009 due to a 15% increase in RWAs from business growth, and from the cancellation of the EUR 400 million guarantee from the Republic of Austria for the structured credit book.

The overall score for capital adequacy is C+, with a neutral trend.

Factor 8: Efficiency

Trend: Improving

At year-end 2009, BAWAG's cost-to-income ratio was 54%, which is considerably improved compared to the previous years (85% in 2007 and 75% in 2006). The bank's efficiency is, however, still weak and partly reflects the relatively high cost base of its retail network, which offers considerable potential for improvement should the growth and cross-selling strategy of the new owners prove successful. Although we expect BAWAG to benefit from this strategy, a marked improvement in efficiency is more likely only over the medium term. While BAWAG used to earn higher margins in CEE markets, it has now divested most of its foreign activities in order to concentrate on its home Austrian market, where margins are traditionally lower, and competition fiercer. However, one of the priorities of the management's strategy is to reduce costs and improve efficiency.

BAWAG reduced its administrative expenses by EUR 100 million in 2009, or 16% compared with 2008. One third of these cost reductions were achieved on personnel costs, and two thirds of these costs were achieved through process optimisation and improved productivity. The IT upgrade implemented in recent years also will contribute to improve productivity in the medium run. In 2010, BAWAG also launched an efficiency programme (named "Bolero") according to which the bank intends to cut its personnel costs by EUR 60 million by reducing its staff by 150 by year-end 2010, and 500 by 2013.

As our scorecard ratios are measured on a three-year basis, the current efficiency score still reflects the bank's poor performance of the past few years; however, Moody's believes this should improve once the strategy fully materialises.

The score for efficiency is D, with an improving trend.

Factor 9: Asset Quality

Trend: Neutral

BAWAG's problem loans represented EUR 1.36 billion or 6.2% of gross loans at year-end 2009 (compared to EUR 1.05 billion or 5.0% of gross loans in 2008). This makes asset quality one of BAWAG's weaknesses, and BAWAG performs poorly compared to its Austrian peers.

Asset quality has historically been poor, with high NPL levels (partly due to the bank's policy of not writing off long-standing NPL positions), complicated by legacy exposures to Austrian and German corporates and, more importantly, due to the significant exposure to Refco and investment conduits registered in the Caribbean in the past. Much of this exposure was fully provisioned and has now been written-off in conjunction with the completion of the sale of BAWAG in 2007. Following these write-offs, asset quality ratios have improved significantly.

Going forward, the quality of the loan book should better reflect the expected improvement in risk culture. Nonetheless, we cannot rule out the possibility that the bank's material exposure to structured products could contribute to some asset impairment given the current state of the financial markets. Furthermore, we caution that the weakening economic conditions in BAWAG's core market (Austria) could lead to pressure on its loan books.

The asset quality score is E+ based on the scorecard three-year average.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a long-term GLC deposit rating of Baa1 (stable outlook) to BAWAG P.S.K. The short-term rating is Prime-2.

Moody's views the probability of systemic support for the bank in a stress situation as very high. Indeed, BAWAG received such support in 2006 and in 2009 reflecting its sizeable national market share in terms of retail deposits and payments. Thus, the GLC deposit rating is supported not only by BAWAG's BCA of Ba2 (stable outlook) but also by Austria's Aaa local-currency deposit ceiling, resulting in a four-notch uplift from the BCA.

Notching Considerations

BAWAG's subordinated debt rating is Baa2. The junior subordinated debt issued by BAWAG Capital Finance (Jersey) Ltd is rated B2. Both ratings have stable outlooks.

Foreign Currency Deposit Rating

BAWAG's Baa1/Prime-2 foreign currency deposit ratings are unconstrained given that Austria, in common with other EU members, has a country ceiling of Aaa.

Foreign Currency Debt Rating

BAWAG's Baa1/Prime-2 foreign currency debt ratings are unconstrained given that Austria, in common with other EU members, has a country ceiling of Aaa.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honour its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognise the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National scale rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

BAWAG P.S.K.

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C-	
Factor: Franchise Value						C-	Improving
Market Share and Sustainability		x					
Geographical Diversification			x				
Earnings Stability					x		
Earnings Diversification [2]							
Factor: Risk Positioning						D	Improving
Corporate Governance [2]				x			
- Ownership and Organizational Complexity				x			
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management				x			
- Risk Management				x			
- Controls				x			
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information			x				
Credit Risk Concentration					x		
- Borrower Concentration					x		
- Industry Concentration					x		
Liquidity Management			x				
Market Risk Appetite			x				
Factor: Operating Environment						A-	Neutral
Economic Stability	x						
Integrity and Corruption		x					
Legal System	x						
Financial Factors (50%)						D-	
Factor: Profitability						E	Improving
PPI / Average RWA - Basel II					-0.45%		
Net Income / Average RWA - Basel II					-1.08%		
Factor: Liquidity						C-	Neutral
(Mkt funds-Liquid Assets) / Total Assets				16.04%			
Liquidity Management			x				
Factor: Capital Adequacy						C	Neutral
Tier 1 Ratio - Basel II			8.30%				
Tangible Common Equity / RWA - Basel II			5.63%				
Factor: Efficiency						D	Improving
Cost / Income Ratio				74.00%			
Factor: Asset Quality						E+	Neutral
Problem Loans / Gross Loans				5.73%			
Problem Loans / (Equity + LLR)					55.00%		
Lowest Combined Score (15%)						E+	
Economic Insolvency Override						Neutral	
Aggregate Score						D+	
Assigned BFSR						D	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

professional adviser.