

Rating Action: Moody's assigns definitive Aaa to the rating of public-sector covered bonds (Fundierte Bankschuldverschreibungen) of Bank fuer Arbeit and Wirtschaft under new public-sector covered bond programme

Global Credit Research - 31 Oct 2006

Euro 1.3 billion of Debt Securities issued

Madrid, October 31, 2006 -- Moody's has assigned definitive long-term ratings of Aaa to the outstanding Fundierte Bankschuldverschreibungen (public-sector covered bonds) issued under a new cover bond programme established by Bank für Arbeit und Wirtschaft und Oesterreichische Postsparkasse AG ("BAWAG P.S.K." or the "Sponsor Bank") in May 2006. The new programme is the second public-sector covered bond of BAWAG and it is planned to be exclusively made up of regional and local public-sector entities, instead of direct exposure to the Republic of Austria. BAWAG P.S.K. will still maintain their first FS programme, the cover pool for which consists only of claims ultimately backed by the European Economic Area sovereigns rated Aaa, which currently consists of Republic of Austria exposures.

Moody's rating for BAWAG P.S.K.'s public-sector covered bond programme is based on the current issuer rating, the security provided by the pool of assets and the strength of the specific Austrian law (Austrian Covered Bank Bond Act or "Gesetz ueber fundierte Bankschuldverschreibungen"). Examples of these strengths include: (i) the credit quality of the cover pool, which is comprised predominantly of claims ultimately backed by Austrian regional or local entities, along with its current assets and liabilities composition; (ii) the support provided by the Issuer; (iii) the additional protection provided by BAWAG P.S.K. having elected under the Act to include in its articles of association a requirement to match the cover pool and covered bonds in accordance with a net present value ("NPV") test which also provides for at least 2% over-collateralisation (calculated on an NPV basis); and (iv) a further structural enhancement pursuant to which BAWAG P.S.K. provides an additional amount of over-collateralisation.

As is the case with other covered bonds, Moody's considers the long term ratings of Aaa to be linked to the rating of the Sponsor Bank (A3, Prime 2), in particular from a default probability perspective. Should the Sponsor Bank's credit strength deteriorate, all other things being equal the rating of the FS may be expected to be negatively affected. However, BAWAG P.S.K. has the ability -- but not an obligation -- to commit voluntary enhancements in the transaction, such as further over-collateralisation in order to increase the de-linkage from its credit strength.

The ratings address the expected loss posed to investors by the legal final maturity. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

To obtain a copy of Moody's new issue report , please contact the client service desk in London on 44(0) 207772 5454 or visit our web page on www.moody's.com. Further information regarding the methodology applied may be found in the Report entitled "Moody's Rating Approach to European Covered Bonds" published in June 2005.

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