MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa rating to BAWAG P.S.K. public-sector covered bonds

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Frankfurt am Main, September 07, 2010 -- Moody's Investors Service has assigned a definitive long-term rating of Aaa to the public-sector covered bonds (Öffentliche Pfandbriefe or covered bonds) issued by BAWAG P.S.K. (the issuer or BAWAG), which are governed by Austria Covered Bond Act (Gesetz betreffend fundierte Bankschuldverschreibungen).

RATINGS RATIONALE

A covered bond benefits from (i) a promise to pay by the issuer; and (ii) in the event of default of the bank supporting the covered bonds, the economic benefit from a pool of collateral (the cover pool). The ratings of the covered bonds take into account the following factors:

1. The credit strength of the issuer (rated Baa1/ Prime-2).

2. The credit quality of the assets securing the payment obligations of the issuer under the covered bonds. As of 31 March 2010, the assets in BAWAG's cover pool amounted to €2.8 billion. The vast majority of the cover assets are claims against the Federal Republic of Austria and Austrian local governments or claims guaranteed by such entities.

3. The strength of the Austrian legal framework. There are a number of strengths in the Austrian Covered Bond Act. These include inter alia the regulatory requirement that the nominal value of the cover assets have to cover the nominal value of outstanding covered bond including the accrued interest on the outstanding covered bonds and expected administration costs of the cover pool in an insolvency scenario of the issuer.

4. The issuer provides 15.5% over-collateralisation, which the rating agency considers to be "committed". The minimum over-collateralisation level that is consistent with the Aaa rating target is 12.5%. The total level of over-collateralisation in the cover pool is 21.4% as of 31 March 2010.

Moody's has assigned a TPI of "High" to BAWAG's public-sector covered bonds.

The Aaa rating assigned to the existing covered bonds is expected to be assigned to all subsequent covered bonds issued by the issuer under this programme and any future rating actions are expected to affect all such covered bonds. Should there be any exceptions to this, Moody's will in each case publish details in a separate press release.

The principal methodology used in rating the bond was Moody's Rating Approach to Covered Bonds published in July 2010. Other methodologies and factors that may have been considered in the process of rating this bond can also be found on Moody's website.

Covered bond ratings are determined after applying a two-step process: expected loss analysis and TPI framework analysis.

EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL) which determines expected loss as a function of the issuer's probability of default, measured by its rating of Baa1, and the stressed losses on the cover pool assets following issuer default.

The Cover Pool Losses for this programme are 10.2%. This is an estimate of the losses Moody's currently models in the event of issuer default. Cover Pool Losses can be split between Market Risk of 7.4% and Collateral Risk of 2.8%. Market Risk measures losses as a result of refinancing risk and risks related to interest rate and currency mismatches (these losses may also include certain legal risks). Collateral Risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral Risk is derived from the Collateral Score which for this programme is currently 4.1%.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI) which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating.

The robustness of a covered bond rating largely depends on the credit strength of the issuer.

The number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework is measured by the TPI Leeway. Based on the current TPI of High the TPI Leeway for this programme is "0" notches, meaning the covered bonds would need to be downgraded if the issuer were to be downgraded, all other things being equal.

A multiple notch downgrade of the covered bonds might occur in certain limited circumstances. Some examples might be (a) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (b) a multiple notch downgrade of the issuer; or (c) a material reduction of the value of the cover pool.

For further details on Cover Pool Losses, Collateral Risk, Market Risk, Collateral Score and TPI Leeway across all covered bond programmes rated by Moody's please refer to "Moody's EMEA Covered Bonds Monitoring Overview", published quarterly. These figures are based on the most recent reporting by the issuer and are subject to change over time.

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