MOODY'S INVESTORS SERVICE

CREDIT OPINION

27 May 2019

New Issue

Rate this Research

Closing date

28 February 2012

TABLE OF CONTENTS

Contacts

Stanislav Nastassine +49.69.70730.714
VP-Senior Analyst
stanislav.nastassine@moodys.com

» Contacts continued on last page

BAWAG P.S.K. - Mortgage Covered Bonds

New Issue – Austrian Covered Bonds

Ratings

Exhibit 1

Cover Pool (€)	Ordinary Cover Pool Assets	Covered Bonds (€)	Rating
2,260,824,503	Residential & Commercial Mortgage Loans	2,014,824,852	Aaa

Source: Moody's Investor Service

Summary Rating Rationale

Moody's has assigned a long-term Aaa rating to the covered bonds issued under the mortgage covered bond programme (*Fundierte Bankschuldverschreibungen* or covered bonds) of BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft ("BAWAG", the issuer; A1(cr)). The covered bonds are full recourse to the issuer and secured by a cover pool of assets consisting of residential loans (91.5%), promoted housing loans (3.7%) and commercial & multi-family loans (4.7%) located in Austria.

The rating takes into account the following factors:

» The credit strength of the issuer (CR Assessment A1(cr)).

» The cover pool's credit quality, which is reflected by the collateral score of 5.6%, and the over-collateralisation of 12.2% (on a nominal value basis).

» The support provided by the Austrian Covered Bond Act (Gesetz betreffend fundierte Bankschuldverschreibungen).

Credit strengths

» ***Recourse to the issuer:*** The covered bonds are full recourse to BAWAG (A1(cr)). (See "Covered bond analysis")

» ***Support provided by the Austrian legal framework:*** The covered bonds are governed by the Austrian Covered Bond Act (Gesetz betreffend fundierte Bankschuldverschreibungen). The act requires the issuer to maintain a cover pool with a nominal value of at least the nominal value of the covered bonds. Further, the act provides for the issuer's regulation and supervision and sets certain minimum requirements for the covered bonds and the cover pool. (For more details on the Austrian Covered Bond Act, see Appendix 2: Legal Framework for Austrian Covered Bonds)

- ***High credit quality of the cover pool:*** The assets comprise residential (95.2% of the cover pool which includes all residential and promoted housing properties) and commercial & multi-familty (4.7%) properties in Austria. Also, 38.1% of the commercial mortgage loans finance properties located in economically strong Vienna, Austria's capital city. The covered bonds benefit currently from a high level of over-collateralisation (12.2% of the covered bonds; on a nominal basis). (See “Cover pool analysis”)
- ***Refinancing risk*: **The cover pool administrator has the ability to raise funds against the cover pool assets through sale of cover pool assets or through bridge loans. In general, we believe that residential mortgages (95.2% of the cover pool) are more liquid and should improve the sales value of the cover pool. (See “Covered bond analysis”)
- ***Currency risk:*** This transaction does not have any currency swaps, since all of the outstanding covered bonds and the cover pool are Euro-denominated. (See “Covered bond analysis”)
- ***Provisions for a cover pool administrator*:** Following an issuer default, the covered bondholders will benefit from a cover pool administrator, that acts independently from the issuer’s insolvency administrator. (See “Covered bond analysis”)

Credit challenges

- ***High level of dependency on the issuer:*** As with most covered bonds, before the insolvency of the issuer, the issuer can materially change the nature of the programme. For example, the issuer can add new assets to the cover pool, issue new covered bonds with varying promises and enter into new hedging arrangements. Also similar to most covered bonds in Europe, this programme has few restrictions on the future composition of the cover pool. These changes could affect the credit quality of the cover pool as well as the overall refinancing and market risks. Further, if the quality of the collateral deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. (See “Covered bond analysis”)
- ***Refinancing risk:*** Following a CB anchor event, in order to achieve timely principal payment, covered bondholders may need to rely on proceeds being raised through the sale of, or borrowing against, cover pool assets. Following a CB anchor event, the market value of these assets may be subject to high volatility. A CB anchor event occurs when the issuer, or another entity in the issuer group that supports the issuer, ceases to service the payments on the covered bonds. (See “Covered bond Analysis”)
- ***Cover pool concentrations:*** As of 28 December 2018, the cover pool has the following concentrations (1) geographical concentration – all mortgage loans are backed by properties in Austria, (2) obligor concentration – the ten largest obligors of the commercial part of the pool account for 25.1% of the total commercial assets. (See “Cover pool analysis”)
- ***Interest rate risk:*** The vast majority (79.7%) of the cover pool has variable rate while all the covered bonds are fixed rate. (See “Covered bond analysis”)
- ***Market risks:*** Following a CB anchor event, covered bondholders, to achieve timely principal payment, might need to rely on proceeds raised through the sale of, or borrowing against, the cover pool assets. The market value of these assets may be subject to high volatility after a CB anchor event. In addition, covered bondholders might have exposure to interest rate and currency risks. (See “Covered bond analysis”)
- ***Time subordination:*** Following a CB anchor event, later-maturing covered bonds are subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds prior to later-maturing covered bonds. This could lead to OC being eroded before any payments are made to later-paying covered bonds. (See “Covered bond analysis”)
- ***Lack of liquidity facility*:** The programme would not benefit from any designated source of liquidity if cash flow collections are interrupted. (See “Covered bond analysis”)

Key characteristics

Exhibit 2
Covered bond characteristics

Moody's Programme Number:	287
Issuer:	BAWAG P.S.K.
Covered Bond Type:	Mortgage Covered Bonds
Issued under Covered Bonds Law:	Yes
Applicable Covered Bonds Law:	Austrian Covered Bond Act (Gesetz betreffend fundierte Schuldverschreibungen)
Entity used in Moody's TPI analysis:	BAWAG P.S.K.
CR Assessment:	A1(cr)
CB Anchor:	CR assessment +1 notch
Senior unsecured rating:	A2, Stable Outlook
Total Covered Bonds Outstanding:	€2,014,824,852
Main Currency of Covered Bonds:	EUR (100%)
Extended Refinance Period:	No
Principal Payment Type:	Hard bullet
Interest Rate Type:	Fixed rate (100%)
Committed Over-Collateralisation:	0.0%
Current Over-Collateralisation:	12.2% (on a nominal basis)
Intra-group Swap Provider:	No
Monitoring of Cover Pool:	Cover pool monitor (Regierungskommissär), mandatory by operation of the Austrian covered bond legislation
Timely Payment Indicator:	Probable
TPI Leeway:	3 notches

Source: Moody's Investors Service, issuer

Exhibit 3
Cover pool characteristics

Size of Cover Pool:	€2,260,824,503
Main Collateral Type in Cover Pool:	Residential (91.5%), Promoted housing (3.7%) and Commercial & Multi-family (4.7%)
Main Asset Location of Ordinary Cover Assets:	Austria (100%)
Main Currency:	EUR (100%)
Loans Count:	21,071 Residential, 55 Promoted Housing, 708 Commercial & Multi-family
Number of Borrowers:	20,060 Residential, 23 Promoted Housing, 608 Commercial & Multi-family
WA unindexed LTV:	76.2% Residential, 33.6% Promoted Housing, 66.7% Commercial & Multi-family
WA indexed LTV:	n/a
WA Seasoning (months):	54 Residential, 138 Promoted Housing, 80 Commercial & Multi-family
WA Remaining Term (months):	332 Residential, 205 Promoted Housing, 167 Commercial & Multi-family
Interest Rate Type:	Fixed rate assets (20.3%), floating rate assets (79.7%)
Collateral Score:	5.6%
Cover Pool Losses:	14.6%
Further Cover Pool Details:	See Appendix 1
Pool Cut-off Date:	28 December 2018

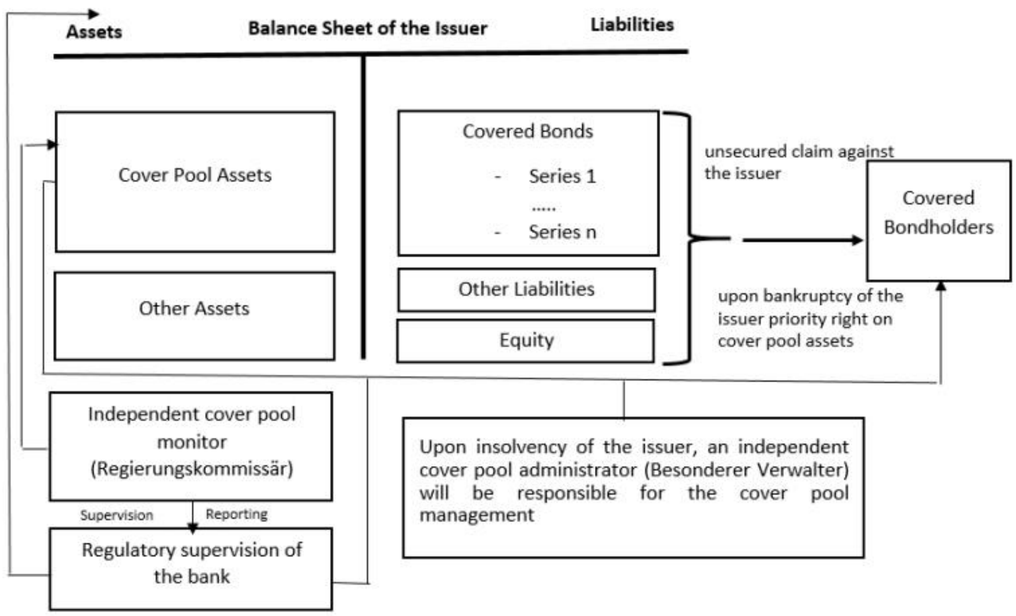
Source: Moody's Investors Service, issuer

Covered bond description

The covered bonds issued under the mortgage covered bond programme of BAWAG are full recourse to the issuer. Upon a CB anchor event, covered bondholders would have access to a cover pool of mortgage loan receivables, both commercial and residential mortgage loan receivables.

Structural Diagram

Exhibit 4



Source: Moody's Investors Service, issuer

Structure description

The bonds

All outstanding covered bonds have a bullet repayment at maturity, without any extension period for the repayment of the bonds. In line with the practice seen for other covered bond programmes under the Austrian Covered Bond Act, the issuance of covered bonds is limited to a maximum of 60% of the properties' market values, according to the issuer's articles of association. Furthermore, Moody's understands that the issuer has also reflected this practice in the terms and conditions of the issued covered bonds and will continue to enshrine this practice in all future issuance terms and conditions. Moody's considers the issuance limit in its analysis.

Issuer recourse

The covered bonds are full recourse to the issuer. Therefore, the issuer is obliged to repay principal and pay interest on the covered bonds.

Recourse to cover pool and over-collateralisation

If the issuer becomes insolvent, the covered bondholders would have priority claims over a pool of assets (cover pool). (See “Cover pool description” for the cover pool characteristics and “Cover pool analysis” for our analysis of the pool).

Based on an issuance of €2.0 billion, the over-collateralisation in the cover pool is currently 12.2%, on a nominal basis, of which 0.0% is provided on a “committed” basis. The minimum OC level consistent with the Aaa rating is 4.5%. These numbers show that Moody’s is relying on “uncommitted” OC in its expected loss analysis.

Although the issuer has the ability to increase the OC in the cover pool if collateral quality deteriorates below a certain threshold, the issuer does not have any obligation to do so. The failure to increase OC following a deterioration of the collateral could lead to a negative rating action.

Legal framework

The covered bonds are governed by the Austrian Covered Bond Act (see Appendix 2: Legal Framework for Austrian Covered Bonds).

Covered bond analysis

Our credit analysis of the covered bonds primarily focuses on the issuer's credit quality, refinancing risk, interest rate risk and currency risk, as well as the probability that payments on the covered bonds would be made in a timely fashion following a CB anchor event, which we measure using the Timely Payment Indicator (See "Timely Payment Indicator").

Primary analysis

Issuer analysis - Credit quality of the issuer

The issuer's CR Assessment is A1(cr). (For a description of the issuer's rating drivers, see our Credit Opinion, published January 2019)

The reference point for the issuer's credit strength in our analysis is the CB anchor, which for covered bond programmes under the covered bond laws in Austria is the CR Assessment plus one notch.

Issuer analysis - Dependency on the issuer's credit quality

The credit quality of the covered bonds are primarily dependent on the credit quality of the covered bonds issuer. Should the issuer's credit strength deteriorate, there would be a greater risk that a CB anchor event would occur, leading to refinancing risk for the covered bonds; consequently the credit quality of the covered bonds would deteriorate unless other credit risks decrease.

In case of deterioration of the CB anchor, the issuer would have the ability, but not obligation, to increase the OC in the cover pool. Failure to increase the level of OC under these circumstances could lead to negative rating actions.

Reasons for the high level of linkage of the covered bonds with the issuer also include exposure to decisions made by the issuer in its discretion as manager of the covered bond programme. For example, before a CB anchor event, the issuer may add new assets to the cover pool, issue further bonds and enter new hedging arrangements. Such actions could negatively affect the value of the cover pool.

Refinancing risk

Following a CB anchor event, the "natural" amortisation of the cover pool assets alone cannot be relied on to repay the principal. We assume that funds must be raised against the cover pool at a discount if covered bondholders are to receive timely principal payment. Where the portion of the cover pool that is potentially exposed to refinancing risk is not contractually limited, our expected loss analysis typically assumes that this amount is in excess of 50% of the cover pool.

After a CB anchor event, the market value of these assets may be subject to volatility. Examples of the stressed refinancing margins we use for different types of prime-quality assets are published in our Rating Methodology. (See "Moody's related publications - Moody's Approach to Rating Covered Bonds")

The refinancing-positive factors outweigh the negative ones. The refinancing-positive aspects of this covered bond programme include:

» The covered bond framework: Upon issuer default, the cover pool administrator has, inter alia, the ability to (i) transfer the cover pool together with the covered bonds to another suitable bank, which will assume the liabilities under the transferred covered bonds; or (ii) sell the cover pool assets to raise liquidity, if cash is needed for due payments on the outstanding covered bonds. The cover pool administrator may also raise funds against the cover pool assets through bridge loans.

» In a scenario in which cover pool assets are sold to raise liquidity, the risk of significant reductions to the nominal value of the assets is reduced as the majority (79.9%) of cover pool assets are with floating rate interest rate arrangements. However, the loan margin of the loan is fixed for the loan term.

» The credit quality of the cover pool, which is reflected in the collateral score of 5.6% (4.7% excluding systematic risk). A higher credit quality of the cover pool will lead to a lower write-off for losses and lower refinancing margins applied, all other variables being equal.

Refinancing-negative aspects of this covered bond programme include:

» The programme does not benefit from any contractual provisions to allow for an extension of a principal refinancing period.

» All covered bonds issued under this programme have a hard-bullet repayment, with no extension period.

- Cover pool assets have a higher weighted-average life (15.8 years), compared with the outstanding covered bonds (1.7 years).
- The programme does not benefit from any designated source of liquidity if cash flow collections are interrupted. The Austrian legal framework lacks a 180 day liquidity reserve to cater for upcoming bond maturities.
- In line with other covered bond programmes, we expect that upon a CB anchor event the cover pool assets will have a significantly higher weighted-average life, compared with the outstanding covered bonds.

Interest rate and currency risk

As with the majority of European covered bonds, there is potential for interest rate and currency risks, which could arise from the different payment promises and durations made on the cover pool and the covered bonds. This covered bond however does not currently have currency rate risk since all of the covered bonds and the cover pool are Euro-denominated.

Exhibit 5

Overview of assets and liabilities

	WAL Assets (Years)	WAL Liabilities (Years)	Assets (%)	Liabilities (%)
Fixed rate	14.4	1.7	20.3%	100.0%
Variable rate	16.1	n/a	79.7%	0.0%

WAL = weighted average life
n/a = not applicable
Source: Moody's Investors Service, issuer

In the case of issuer insolvency, we currently do not assume that the special cover pool administrator (*besonderer Verwalter*) will always be able to efficiently manage any natural hedge between the cover pool and the covered bonds. Therefore, following a CB anchor event, our model would separately assess the impact of increasing and decreasing interest rates on the expected loss of the covered bonds, taking the path of interest rates that leads to the worst result. The interest rate and currency stresses used over different time horizons are published in our Rating Methodology.

Aspects of this covered bond programme that are market-risk positive include:

- According to the Austrian Covered Bond Act, the cover pool assets must also cover the outstanding bonds in terms of interest income at all times.
- All outstanding covered bonds and all cover assets are denominated in Euro.

Aspects of this covered bond programme that are market-risk negative include:

- The vast majority (79.7%) of the cover pool has variable rate while all the covered bonds are fixed rate. Thus, following a CB anchor event, investors in covered bonds may be exposed to interest-rate mismatches.
- If the issuer becomes insolvent, we do currently not assume that the cover pool administrator will always be able to manage efficiently any natural hedge between the cover pool and the covered bonds.

Timely Payment Indicator

Our Timely Payment Indicator (TPI) assesses the likelihood that timely payments would be made to covered bondholders following a CB anchor event, and thus determines the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable level of OC. We have assigned a TPI of Probable to these covered bonds, in line with other mortgage covered bonds issued under the Austrian Covered Bond Act.

Based on the current TPI of Probable, the TPI leeway for this programme is three notches. This three-notch leeway implies that we might downgrade the covered bonds' rating because of a TPI cap if we were to lower the CB anchor by more than three notches, all other variables being equal.

The TPI-positive aspects of this covered bond programme include:

» The level of support expected for covered bonds in Austria.

» The Austrian Covered Bond Act, including:

- At the time of the declaration of issuer's bankruptcy, a cover pool administrator will take over management responsibility of the covered bond programme. The cover pool administrator will act independently from the issuer's bankruptcy receiver. Having an independent administrator may reduce potential conflicts of interest between the covered bondholders and other creditors.
- Set-off: We understand that setting-off against claims registered in the cover pool is not permitted in context of cover pool assets that are located in Austria and governed by Austrian law. The issuer's cover pool selection criteria require that each borrower has been notified about the use of the mortgage in the cover pool and exclusion of set-off. All foreign borrowers have signed a set-off waiver.

» The credit quality of the cover pool assets, which is evidenced by the collateral score of 5.6% (4.7% excluding systematic risk). A good credit quality of the cover pool assets increases the likelihood that the cover pool administrator will be able to raise funds against the cover pool assets.

The TPI-negative aspects of this covered bond programme include:

» All covered bonds outstanding have a bullet repayment at maturity, without any extension period for the repayment of the bonds.

» The covered bond programme does not benefit from any designated source of liquidity if cash flow collections are interrupted.

» Commingling risk: Upon the appointment of the cover pool administrator (*besonderer Verwalter*), it is our understanding that the cover pool administrator has a priority claim on all cash flows stemming from the cover pool assets. However, these cash flows have to be separated from other cash flows to the issuer before they can be used to make payments to covered bondholders.

Additional analysis

Liquidity

The covered bond programme would not benefit from any designated source of liquidity if cash flow collections were to be interrupted. However, strengths of the Austrian legal framework for covered bonds, which include the alternatives given to the cover pool administrator for raising funds against the cover pool and the issuer's obligation – by the operation of the Austrian Covered Bond Act – to maintain a sufficient amount of cover pool assets to cover the outstanding liabilities and management costs would be sufficient to cover the liquidity risks.

Time subordination

After a CB anchor event, later-maturing covered bonds would be subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds before later-maturing covered bonds. Such payments could result in the erosion of OC before any payments are made to later-paying covered bonds.

Comparables

Exhibit 6

PROGRAMME NAME	BAWAG P.S.K. - Mortgage Covered Bonds	Raiffeisen Bank International AG - Mortgage Covered Bonds	UniCredit Bank Austria AG - Mortgage Covered Bonds	Erste Group Bank AG - Mortgage Covered Bonds
Overview				
Programme is under the law	Austrian Covered Bond Act	Austrian Covered Bond Act	Mortgage Bank Act	Mortgage Bank Act
Main country in which collateral is based	Austria	Austria	Austria	Austria
Country in which issuer is based	Austria	Austria	Austria	Austria
Total outstanding liabilities	2,014,824,852	1,250,000,000	5,246,184,400	11,215,025,856
Total assets in the Cover Pool	2,260,824,503	1,695,701,881	12,762,410,024	14,077,254,453
Issuer name	BAWAG P.S.K.	Raiffeisen Bank International	UniCredit Bank Austria AG	Erste Group Bank AG
Issuer CR assessment	A1(cr)	A3(cr)	A3(cr)	A1(cr)
Group or parent name	n/a	n/a	n/a	n/a
Group or parent CR assessment	n/a	n/a	n/a	n/a
Main collateral type	Residential	Commercial	Residential	Residential
Collateral types	Residential 92%, Commercial 5%, Promoted Housing Loans 4%, Public Sector 0%, Other/Supplementary assets 0%	Commercial 85%, Residential 15%, Public Sector 0%, Other/Supplementary assets 0%	Residential 70%, Commercial 29%, Public Sector 0%, Other/Supplementary assets 1%	Residential 75%, Commercial 23%, Public Sector 0%, Other/Supplementary assets 2%
Ratings				
Covered bonds rating	Aaa	Aa1	Aaa	Aaa
Entity used in Moody's EL & TPI analysis	BAWAG P.S.K.	Raiffeisen Bank International AG	UniCredit Bank Austria AG	Erste Group Bank AG
CB anchor	CR Assessment + 1 notch	CR Assessment + 1 notch	CR Assessment + 1 notch	CR Assessment + 1 notch
CR Assessment	A1(cr)	A3(cr)	A3(cr)	A1(cr)
SUR / LT Deposit	A2	A3	Baa1	A2
Unsecured claim used for Moody's EL analysis	Yes	Yes	Yes	Yes
Value of Cover Pool				
Collateral Score	5.6%	16.9%	10.5%	8.1%
Collateral Score excl. systemic risk	4.7%	n/a	n/a	n/a
Collateral Risk (Collateral Score post-haircut)	3.8%	11.3%	7.0%	5.4%
Market Risk	10.9%	18.2%	13.3%	12.2%
Over-Collateralisation Levels				
Committed OC*	0.0%	0.0%	2.0%	2.0%
Current OC	12.2%	35.7%	158.6%	21.8%
OC consistent with current rating	4.5%	17.0%	17.0%	8.0%
Surplus OC	7.7%	18.7%	141.6%	13.8%
Timely Payment Indicator & TPI Leeway				
TPI	Probable	Probable	Probable	Probable
TPI Leeway	3	2	1	3
Reporting date	28 December 2018	26 March 2019	31 December 2018	30 September 2018

*We consider this level of OC as committed according to our methodology even though the level of OC provided via the asset cover test might be higher because the issuer could reduce the level of OC down to this level without a rating impact on our covered bond rating

Source: Moody's Investors Service, latest Performance Overview Reports, issuer

Cover pool overview

Pool description

The cover pool consists of commercial loans that constitute 4.7% of the cover pool and residential mortgage loans (including promoted housing loans) constitute 95.2% of the cover pool. The assets are loans backed by properties located in Austria (100.0%).

We understand from the issuer that the issuance of covered bonds is limited to a maximum of 60.0% of the market value of the property that secures the cover asset, even though this is not required by the Austrian Covered Bond Act.

For BAWAG's underwriting criteria, see Appendix 1: Income Underwriting and Valuation.

Commercial mortgage loans

The commercial mortgage loans account for 2.3% of the total cover pool. Multi-family mortgage loans account for 2.4% of the cover pool. Totally this 4.7% of the cover pool are secured by properties in Austria.

The ten largest obligors account for 25.1% of the sub-pool, illustrating some risk exposures to single names.

93.9% of the loans are without a fixed interest rate for the loan term, exposing the asset to the risk of rising interest rates. 5.5% of the commercial mortgages are bullet loans without a regular loan repayment schedule before loan maturity. All assets are performing.

Exhibits 7 and 8 below show more details about the characteristics of the commercial part of the cover pool.

Exhibit 7

Commercial assets

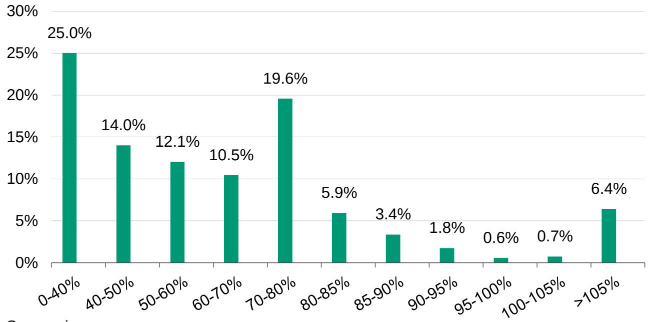
Overview	
Asset type:	Commercial and Multi-family
Asset balance:	EUR 107,120,030
Average loan balance:	EUR 151,299
Number of loans:	708
Number of borrowers:	608
Number of properties:	619
Largest 10 loans:	25.1%
Largest 10 borrowers:	26.8%
Main countries:	Austria (100%)
Performance	
Loans in arrears ≥ 2months:	0.0%
Loans in foreclosure procedure:	0.0%
Details on Loan Underwriting (pool average by loan amount)	
Loan seasoning (in months):	80
Underwriter's Debt Service Coverage ratio (DSCR):	n/d
WA remaining term (in months):	167
Remaining tenancy term (in months):	n/d
Tenants rated at investment grade (as % of the pool):	n/d

Specific Loan and Borrower characteristics	
Bullet loans:	5.5%
Loans in non-domestic currency:	0.0%
Percentage of fixed rate loans:	6.1%
Percentage of loans exposed to interest rate risk:	93.9%
Percentage of loans with recoursse to sponsor / initiator:	59.0%
Financing of properties in construction:	2.4%
Details on LTV	
Original LTV (property value at loan origination):	38.7%
Current LTV (loan balance in cover pool, current property value):	35.4%
Current LTV (whole loan, including junior ranking loan parts):	66.7%
Valuation type:	Market Value
LTV Threshold:	60.0%
Junior ranks:	0.0%
Prior and Equal ranks:	125.4%

Source: issuer

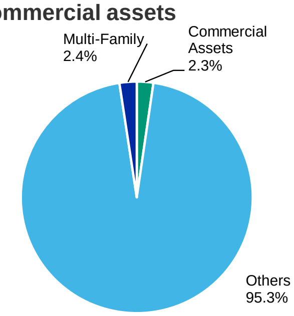
Exhibit 8
Characteristics of commercial assets

Exhibit 8A
Balance per LTV-band



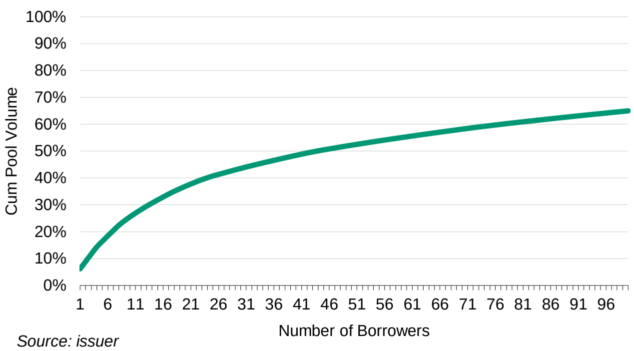
Source: issuer

Exhibit 8B
Percentage of commercial assets



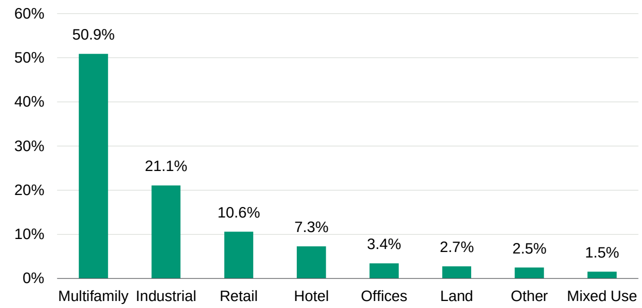
Source: issuer

Exhibit 8C
Borrower concentration



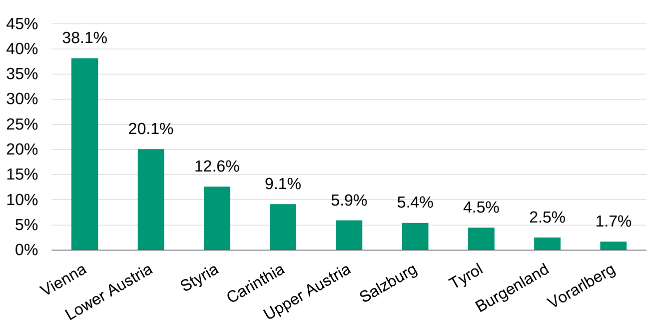
Source: issuer

Exhibit 8D
Property type



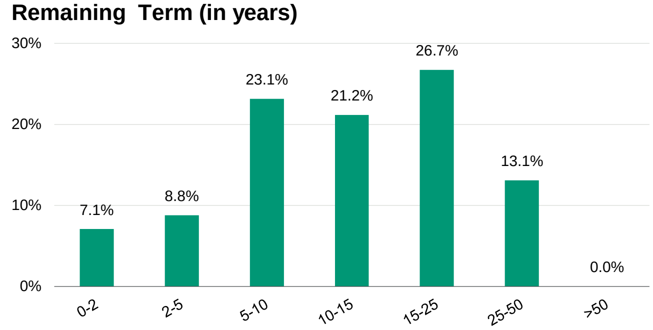
Source: issuer

Exhibit 8E
Main country regional distribution



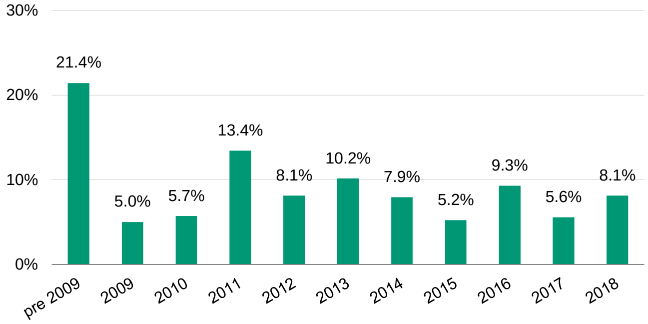
Source: issuer

Exhibit 8F
Remaining Term (in years)



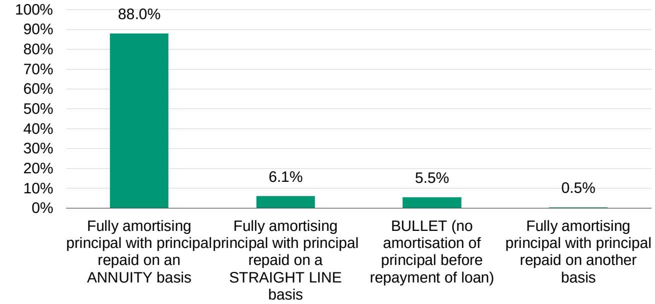
Source: issuer

Exhibit 8G
Year of loan origination



Source: issuer

Exhibit 8H
Principal Repayment Method



Source: issuer

Residential mortgage loans

Residential mortgage loans account for 91.5% of the total cover pool. Promoted housing mortgage loans account for 3.7% of the cover pool. In total this 95.2% of the cover pool are secured by properties in Austria.

The weighted average current unindexed loan-to-value (LTV) ratio of the residential loans is 76.2%. The weighted average current unindexed loan-to-value (LTV) ratio of the promoted housing loans is 33.6%. This is in line with LTV ratios observed in other residential loans in programmes that we rate in Austria. The residential cover pool features 0.3% of interest-only loans, however there are no interest only loans in promoted housing loans. 99.7% of the pool is amortising on an annuity basis over a maximum of 35 years.

Exhibits 9 through 12 show more details about the cover pool characteristics.

Exhibit 9

Residential assets

Overview	
Asset type:	Residential
Asset balance:	EUR 2,069,708,908
Average loan balance:	EUR 98,225
Number of loans:	21,071
Number of borrowers:	20,060
Number of properties:	24,886
WA remaining term (in months):	332
WA seasoning (in months):	54

Details on LTV	
WA unindexed LTV (*)	76.2%
WA Indexed LTV:	n/a
Valuation type:	Market Value
LTV threshold:	60.0%
Junior ranks:	n/d
Prior ranks:	24.0%

Specific Loan and Borrower characteristics	
Loans with an external guarantee in addition to a mortgage:	n/a
Interest-only loans:	0.3%
Loans for second homes / Vacation:	0.0%
Buy-to-let loans / Non-owner occupied properties:	0.0%
Limited income verified:	0.0%
Adverse credit characteristics (**):	0.0%

Performance	
Loans in arrears (≥ 2months - < 6months):	0.0%
Loans in arrears (≥ 6months - < 12months):	0.0%
Loans in arrears (≥ 12months):	0.0%
Loans in a foreclosure procedure:	0.0%

n/a = not applicable
n/d = information not disclosed by issuer
(note *) May be based on property value at time of origination or further advance or borrower refinancing.
(note **) Typically borrowers with a previous personal bankruptcy or borrowers with record of court claims against them at time of origination.
Source: issuer

Exhibit 10

Promoted housing assets (residential)

Overview	
Asset type:	Residential (Promoted Housing)
Asset balance:	EUR 83,995,565
Average loan balance:	EUR 1,527,192
Number of loans:	55
Number of borrowers:	23
Number of properties:	53
WA remaining term (in months):	205
WA seasoning (in months):	138

Details on LTV	
WA unindexed LTV (*)	33.6%
WA Indexed LTV:	n/a
Valuation type:	Market Value
LTV threshold:	60.0%
Junior ranks:	n/d
Prior ranks:	16.8%

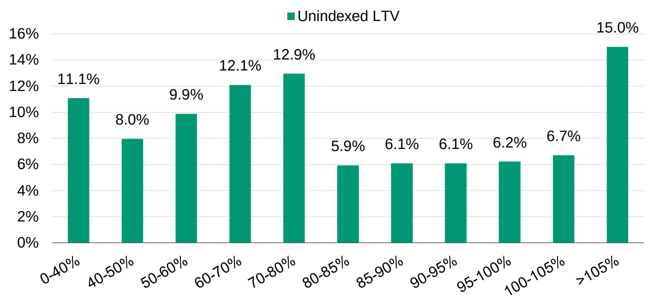
Specific Loan and Borrower characteristics	
Loans with an external guarantee in addition to a mortgage:	n/a
Interest-only loans:	0.0%
Loans for second homes / Vacation:	0.0%
Buy-to-let loans / Non-owner occupied properties:	0.0%
Limited income verified:	0.0%
Adverse credit characteristics (**):	0.0%

Performance	
Loans in arrears (≥ 2months - < 6months):	0.0%
Loans in arrears (≥ 6months - < 12months):	0.0%
Loans in arrears (≥ 12months):	0.0%
Loans in a foreclosure procedure:	0.0%

n/a = not applicable
n/d = information not disclosed by issuer
(note *) May be based on property value at time of origination or further advance or borrower refinancing.
(note **) Typically borrowers with a previous personal bankruptcy or borrowers with record of court claims against them at time of origination.
Source: issuer

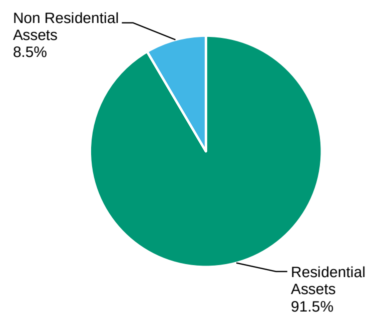
Exhibit 11
Characteristics of residential assets

Exhibit 11A
Balance per LTV-band



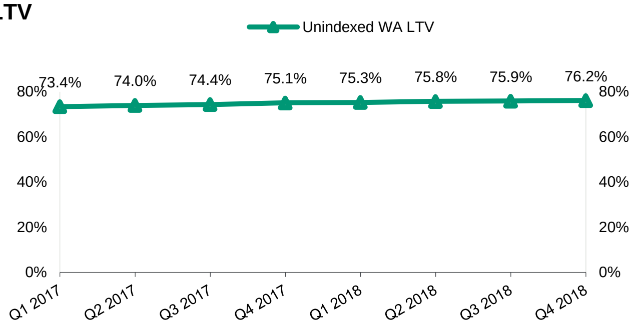
Source: issuer

Exhibit 11B
Percentage of residential assets



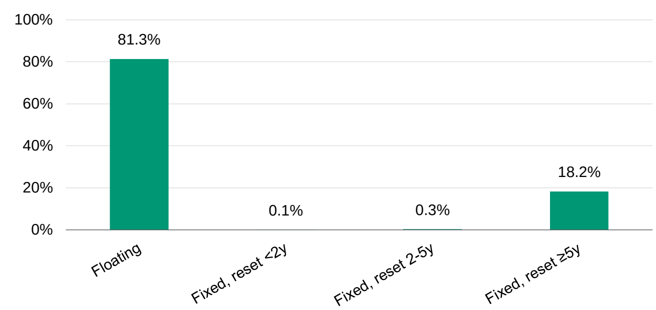
Source: issuer

Exhibit 11C
LTV



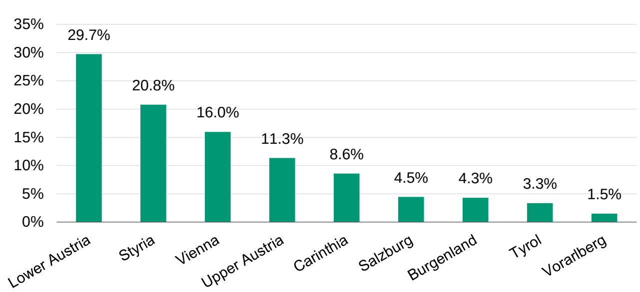
Source: issuer

Exhibit 11D
Interest rate type



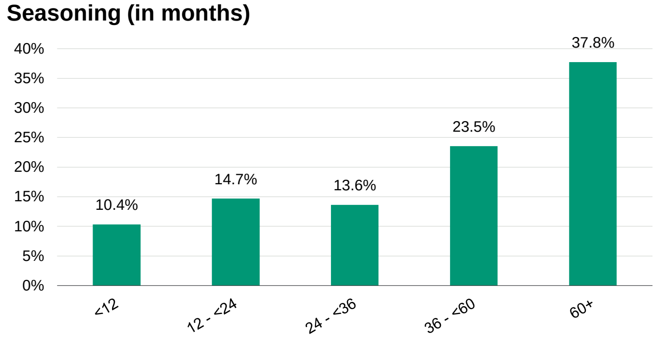
Source: issuer

Exhibit 11E
Main country regional distribution



Source: issuer

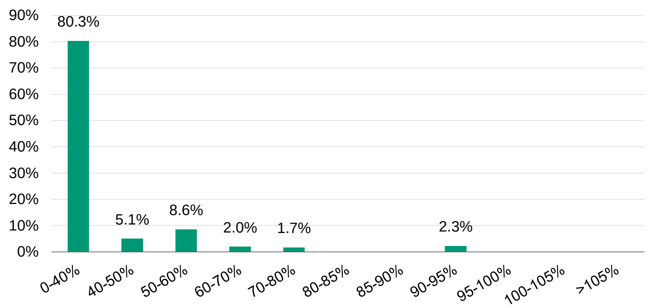
Exhibit 11F
Seasoning (in months)



Source: issuer

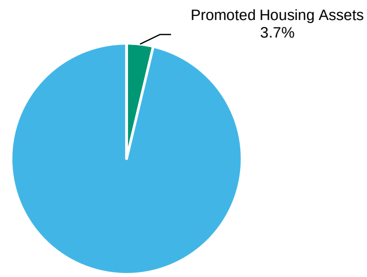
Exhibit 12
Characteristics of promoted housing loans

Exhibit 12A
Balance per LTV-band



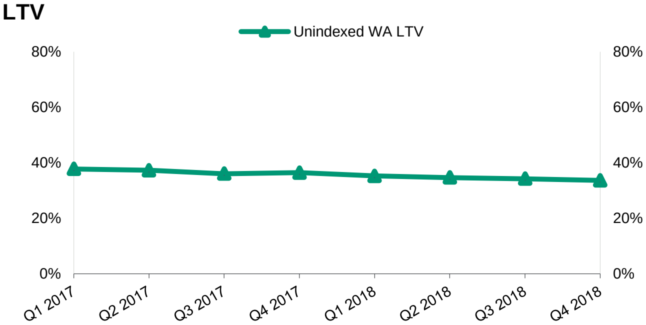
Source: issuer

Exhibit 12B
Percentage of residential assets



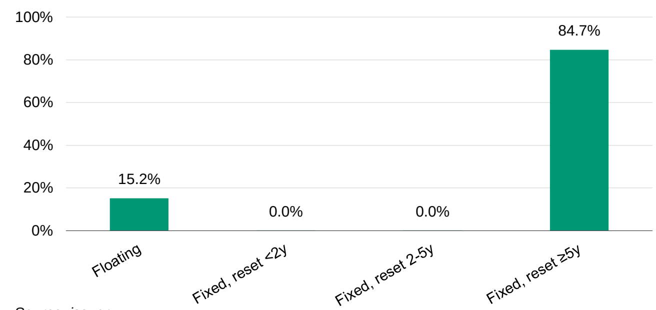
Source: issuer

Exhibit 12C
LTV



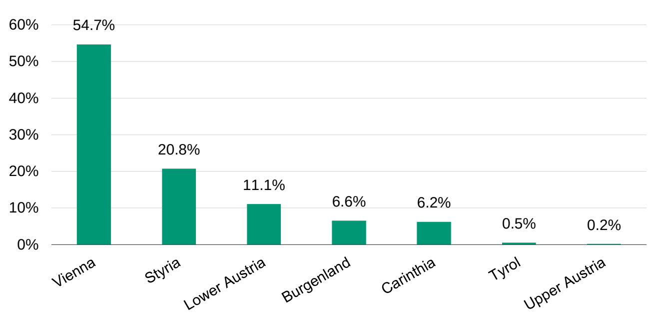
Source: issuer

Exhibit 12D
Interest rate type



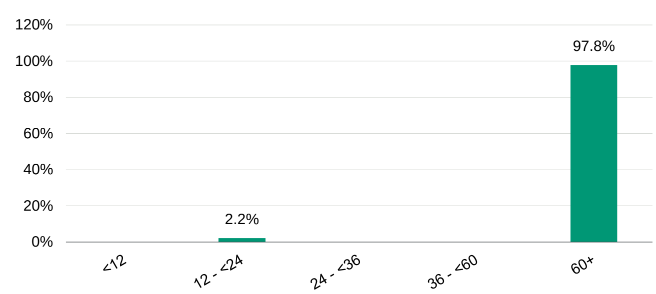
Source: issuer

Exhibit 12E
Main country regional distribution



Source: issuer

Exhibit 12F
Seasoning (in months)



Source: issuer

Substitution

Exposure to decisions made by the issuer in its discretion as manager of the cover pool creates additional risk. For example, before a CB anchor event, the issuer may remove assets from the cover pool and/or add new assets to the cover pool. Such actions could negatively affect the value of the cover pool.

As with most covered bonds in Europe, there are few contractual restrictions on the future composition of the cover pool, creating substitution risk. Nevertheless, cover pool quality over time will be protected by, among others, the requirements of the Austrian Covered Bond Act, which specify what types of assets are eligible (see Appendix 2: Legal Framework for Austrian Covered Bonds).

Cover pool monitor

Pursuant to the Austrian Covered Bond Act, a Regierungskommissär has been appointed to monitor the various day-to-day operations with respect to the cover pool. For more details on the cover pool monitor's role, see Appendix 2: Legal Framework for Austrian Covered Bonds.

Cover pool analysis

Our credit analysis of the pool takes into account specific characteristics of the pool, as well as legal risks.

Primary cover pool analysis

For this programme, the collateral score of the current pool is 5.6% (4.7% excluding systematic risk), which is lower than the average collateral score of 8.5% in other Austrian mortgage covered bonds.

Commercial and Multi-family Cover Pool Analysis (4.7% of cover pool)

We calculate the collateral score for the commercial mortgages using a multi-factor model which is solved through a Monte Carlo simulation. Our analysis takes into account, inter alia, the impact of concentration on borrower, regional and country levels as well as individual borrowers' credit quality.

» *From a credit perspective, Moody's views the following characteristics of the loans as positive:*

- All cover assets are denominated in Euro.
- The current WA LTV of the commercial loans is 35.4%. This number is in line with LTVs observed for other commercial loans that we rate in Austria. The issuer appraises all properties annually, in line with European regulatory requirements.
- 38.1% of the commercial assets finance properties located in economically strong Vienna, Austria's capital city.
- 50.9% of the subpool finance multi-family properties.
- A sizeable share (94.5%) of the commercial mortgages amortise in full over the loan term, so only 5.5% of the commercial loans are bullet loans.

» *From a credit perspective, Moody's views the following characteristics of the loans as negative:*

- 7.3% of the commercial loans are secured by hotels, which typically exhibit higher credit risk than other commercial property types.
- 93.9% of all the loans in the sub-pool feature floating interest rates. This exposes the borrowers to the risk of increasing debt service payments in case of increasing interest rates.

Residential and Promoted Housing Cover Pool Analysis (95.2% of cover pool)

We calculate the collateral score for residential mortgage loans with a scoring model (called MILAN) that we use to assess the credit risk of residential mortgage loan portfolios.

» From a credit perspective, Moody's views the following characteristics of the loans as positive:

- All cover assets are denominated in Euro.
- All loans are secured by owner-occupied properties.
- The unindexed weighted average (WA) current LTV of the residential loans and promoted housing assets is 76.2% and 33.6% respectively. This is in line with LTVs observed for other residential loans in programmes that we rate in Austria. The issuer appraises all properties within a three-year frequency, in line with European regulatory requirements.
- Only 0.3% of the sub-pool are interest-only loans.

» *From a credit perspective, Moody's views the following characteristics of the loans as negative:*

- 21.7% of the residential loans exhibit a LTV above 100%, suggesting a significant likelihood of losses should the borrower cease to service its mortgage obligations.
- 99.7% of the sub-pool are loans with floating interest rate. This exposes the borrowers to the risk of increasing debt service payments in case of increasing interest rates.

Methodology and monitoring

The primary methodology we use in rating the issuer's covered bonds is "Moody's Approach to Rating Covered Bonds", published in February 2019. Other methodologies and factors that may have been considered in the rating process can also be found on http://www.moodys.com. In addition, we publish a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

We expect the issuer to deliver certain performance data to us on an ongoing basis. In the event that this data is not made available to us, our ability to monitor the ratings may be impaired. This lack of data availability could negatively affect the ratings or, in some cases, our ability to continue to rate the covered bonds.

Appendix 1: Income underwriting and valuation

Exhibit 13

A. Income Underwriting	22.05.2019
1 Is income always checked?	YES
2 Does this check ever rely on income stated by borrower (“limited income verification”) ?	NO
3 Percentage of loans in Cover Pool that have limited income verification	NONE
4 If limited income verification loans are in the Cover Pool, describe what requirements lender has in place for these loans.	N/A
5 Does income in all cases constrain the amount lent (for example through some form of Income Sufficiency Test (“IST”)?	YES, but not by IST. Free disposable income needs to be sufficient for an affordability calculation, less disposable income leads to lower amount lent
6 If not, what percentage of cases are exceptions.	NONE
For the purpose of any IST:	
7 Is it confirmed that income after tax is sufficient to cover both interest and principal?	YES
8 If so over what period is it assumed principal will be paid (typically on an annuity basis)? Any exceptions?	Monthly instalment includes both capital and interest, Affordability check against free disposable income is done.
9 Does the age of the borrower constrain the period over which principal can be amortised?	YES
10 Are any stresses made to interest rates when carrying out the IST? If so when and for what type of products?	Affordability calculation is done with a notional intesrest rate of 4% for mortgage loans
11 Are all other debts of the borrower taken into account at the point the loan is made?	YES
12 How are living expenses of the borrower calculated? And what is the stated maximum percentage of income (or income multiple if relevant) that will be relied on to cover debt payments. (specify if income is pre or post tax)	All customer expenses data is collected via customers questionaire, minimum living costs are calculated by the system with Statistik Austria values and floor in cases where living costs from customers questionaire are lower
Other comments	NONE

B. Valuation	
1 Are valuations based on market or lending values?	MARKET
2 Are all or the majority of valuations carried out by external valuers (with no direct ownership link to any company in the Sponsor Bank group)?	The appraisal is done by internal experts using a market research software
3 How are valuations carried out where an external valuer not used?	The appraisal is done by internal experts using a market research software
4 What qualifications are external valuers required to have?	If there is a cooperation, the internal guidance prescribes to work only with certified valuers
5 What qualifications are internal valuers required to have?	Appropriate training and ongoing training is a prerequisite
6 Do all external valuations include an internal inspection of a property?	No. Everything is done actually by internals
7 What exceptions?	None
8 Do all internal valuations include an internal inspection of a property?	Internal appraisal team using a market research software, for mortgage loans in an amount of > EUR 400k an onsite inspection is evaluated, depending on the kind of the property
9 What exceptions?	NONE
Other comments	NONE

Source: issuer

Appendix 2: Legal Framework for Austrian Covered Bonds

In Austria, there are three different covered bond acts, under which Austrian covered bond issuers can issue covered bonds. The three acts are:

- Mortgage Bank Act (Hypothekenbankgesetz);

- Austrian Pfandbrief Act (Pfandbriefgesetz or PfandbriefG); and

- Austrian Covered Bond Act (Gesetz betreffend fundierte Bankschuldverschreibungen or FBSchVG), see chart 1 below.

For the purposes of this report, our references to Austrian covered bond legislation relates to all these three types of act and other relevant regulation, if not stated otherwise. This covered bond transaction is governed by the Austrian Covered Bond Act, under which covered bonds will be issued from time to time, in each case constituting direct, unconditional and senior obligations of the issuer. The issuer is a regulated bank and supervised by the appropriate authorities.

Mortgage-sector covered bonds are secured by a pool of assets (cover pool). A 60.0% loan-to-value (LTV) limit for cover pool assets is market practice in Austria although only specified in the Mortgage Bank Act. The covered bond issuer has to establish a cover register for its covered bonds, which secures covered bondholder's claims upon insolvency of the covered bond issuer.

The Austrian Covered Bond Act inter alia sets out rules detailing which assets qualify as cover assets for public sector covered bonds. Eligible assets for a cover pool are (i) direct claims against entities located in Austria and member states of the EEA, or Switzerland or local and regional governments located in these countries; or (ii) debt guaranteed by the aforementioned public-sector entities.

The covered bond issuer may include derivatives in the cover pool even though this is not current market practice in Austria. We understand that claims of hedge counterparties rank equally with those of covered bondholders.

Under the Act, the covered bond issuer must comply with a nominal cover test. This test requires a minimum over-collateralisation (OC) of 0.0% which means the nominal value of the cover pool must be at least as high as the nominal value of the covered bonds.

The Austrian Covered Bond Act allows issuers to commit themselves to a present value test (PV test). We understand that the issuer becomes legally obliged to maintain this PV test by operation of the Austrian covered bond legislation if this has been included in the articles of association of the issuer.

A cover pool monitor ("Regierungskommissär") will monitor various operations with respect to the cover pool on a regular basis. For example, we understand that cover assets may not be de-registered from the cover pool without the prior consent of the cover pool monitor.

Upon insolvency of the covered bond issuer, all cover assets, including, in our understanding, the actual OC at that point in time, would be available for the covered bondholder on a priority basis.

In the event of an issuer default, the cover pool will be segregated from the bankruptcy estate of the issuer and a cover pool administrator (Besonderer Verwalter) will be appointed upon the commencement of bankruptcy procedures. This cover pool administrator shall undertake the necessary administrative measures to satisfy claims by the covered bondholders by collecting claims that are due, selling individual cover assets or organising bridge financing.

Payments and receivables on the cover pool assets are not required to be separated from other cash flows of the covered bond issuer before a declaration of bankruptcy. Upon the commencement of bankruptcy proceedings, the covered bondholders would have a preferential claim on all receivables in the cover pool. The appointed cover pool administrator will be obliged by operation of the Austrian Covered Bond Act to apply all collections to satisfy the preferential claims against the cover pool.

We understand that no set-off may be exercised by the borrower against the Austrian cover assets recorded in the cover pool and governed by Austrian law by the operation of the act.

In the event of the issuer's insolvency, it is possible that assets located outside Austria (i.e., mortgage-sector borrowers located outside Austria) will be less protected against claims of other creditors of the issuer compared with assets located in Austria. For claims against borrowers located outside Austria and for loans governed by non-Austrian law, the amount due by the borrowers could be determined based on foreign law. This law may allow the borrower to exercise set-off, hence, the amount payable by such borrower may be reduced accordingly.

In the event of an issuer default, the following scenarios may occur:

» If feasible, the cover pool administrator may transfer the cover pool together with the obligations under the covered bonds to another suitable bank, which will assume the obligations under the covered bond and will take over the cover pool.

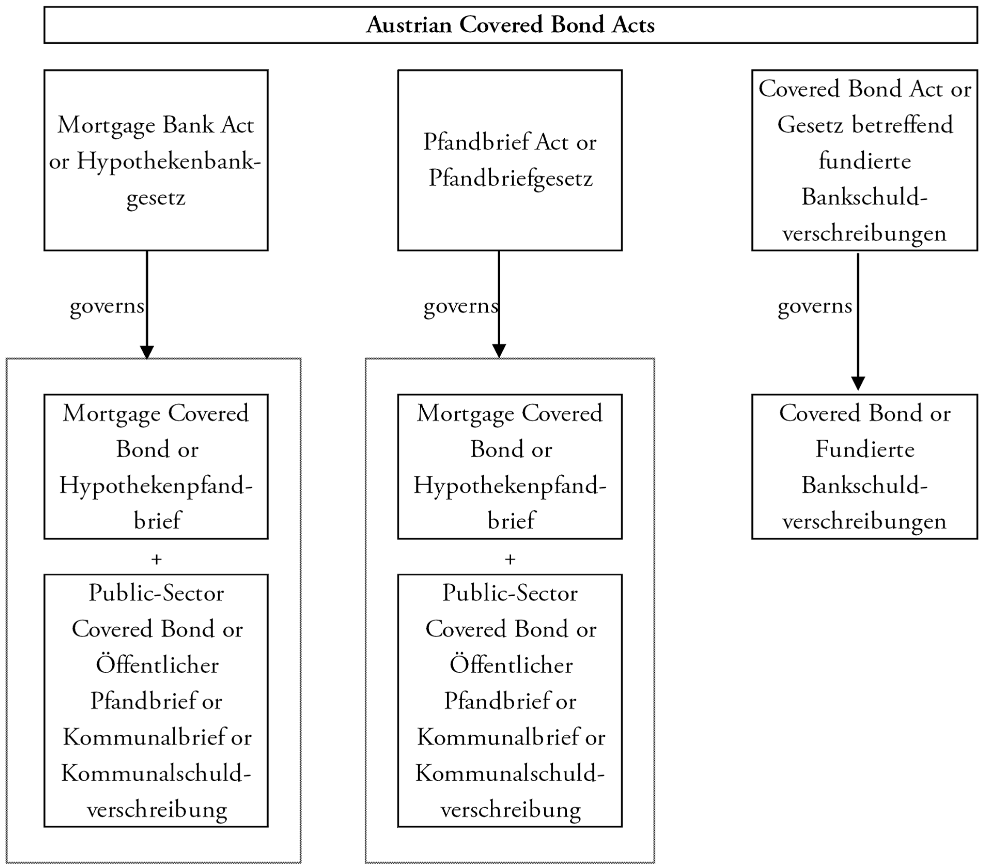
» If the cover pool and the outstanding covered bonds are not transferred and the cover pool assets are not sufficient to satisfy all claims of covered bondholders, the outstanding covered bonds would accelerate. The cover pool administrator would dispose of the cover pool assets, subject to the approval of the competent court and distribute the proceeds stemming from the disposal of the cover pool assets among the cover bondholders on a pari passu basis. If the proceeds prove insufficient to meet all claims of the pari passu creditor of the cover pool, then the covered bondholders will have a senior unsecured claim against the general bankruptcy estate of the covered bond issuer.

» Subject to the approval of the competent court, the cover pool administrator may sell the cover pool assets and satisfy the claims of the covered bondholders by an early redemption of the covered bonds at the then-current present value, provided certain conditions were met, which include the following:

– A transfer of the cover pool together with the outstanding covered bond to another suitable bank is not possible;

– There is sufficient cover for all pari passu claims against the cover pool.

Overview of Covered Bond Acts in Austria



Moody's related publications

Rating Methodology

» Moody's Approach to Rating Covered Bonds, February 2019 (1154442)

Special Comments

» EU energy efficiency agenda increases credit risks for noncompliant covered bond collateral, April 2019 (PBS_1170206)

» Newly agreed EU covered bond law supports credit standards, March 2019 (PBS 1165167)

» Covered Bonds – Global: Sector update – Q4 2018, February 2019 (PBS 1157737)

» Moody's Global Covered Bonds Monitoring Overview: Q2 2018, January 2019 (PBS 1152125)

» Aligning Austrian Covered Bond Laws with Emerging European Standards Will Be Credit Positive, May 2017 (PBS_1067084)

» Austrian Regulator's New Macro-prudential Tools Would Be Credit Positive for Banks and Covered Bonds, May 2017 (PBC_195491)

» EU Bank Recovery and Resolution Regime Strengthens Austrian Covered Bonds and Improves Their Ratings, August 2015 (PBS_1006469)

» European Covered Bond Legal Frameworks: Moody's Legal Checklist, December 2005 (SF66418)

Credit Opinion

» BAWAG P.S.K.

Webpages

» Covered Bonds: www.moodys.com/coveredbonds

» Covered Bond Legal Frameworks: www.moodys.com/Pages/CoveredBondLegalFrameworks.aspx

To access any of these reports or webpages, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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Contacts

Juan Pablo Soriano +34.91.768.8233
MD-Structured Finance
juanpablo.soriano@moodys.com

Jose de Leon +34.91.768.8218
Senior Vice President/ Manager
jose.deleon@moodys.com

Nicholas Lindstrom +44.20.7772.5332
Associate Managing Director
nicholas.lindstrom@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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