

ISSUER COMMENT

17 September 2020

 Rate this Research

Contacts

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

CLIENT SERVICES

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

BAWAG P.S.K. - Mortgage Covered Bonds

Growing share of Dutch mortgages in cover pool is credit positive

Summary

Austrian bank BAWAG P.S.K. (A2 Stable, A1(cr), baa1)¹ is increasing the share of Dutch loans in its mortgage covered bond pool, a credit positive.

- » **Dutch mortgages increase cover pool diversification.** BAWAG plans to increase the share of Dutch loan in its mortgage covered bond pool to above 10% by the end of 2020. Austrian mortgages make up most of BAWAG's cover pool, so the growing share of Dutch loans increases pool diversification, a credit positive.
- » **Expected default probability is particularly low for Dutch mortgages.** We assume particularly low default probabilities for Dutch residential mortgages. As a result, we expect the growing share of Dutch mortgages in the BAWAG cover pool will be positive. Our collateral score for BAWAG's cover pool improved in the second quarter of 2020 because of the issuer's addition of Dutch mortgages.
- » **Dutch cover pool mortgages benefit from government guarantee scheme.** All Dutch mortgages in BAWAG's cover pool benefit from the Dutch national mortgage guarantee scheme, which may substantially reduce losses on cover pool mortgages if borrowers default, a credit positive.
- » **Euro-denominated Dutch mortgages do not increase foreign currency risk.** All Dutch mortgages in BAWAG's cover pool are Euro-denominated, so they do not increase foreign currency risks. This differs to BAWAG's addition of Swiss Franc-denominated residential mortgages to the cover pool in 2019, which increased foreign currency risk.

Dutch mortgages increase cover pool diversification

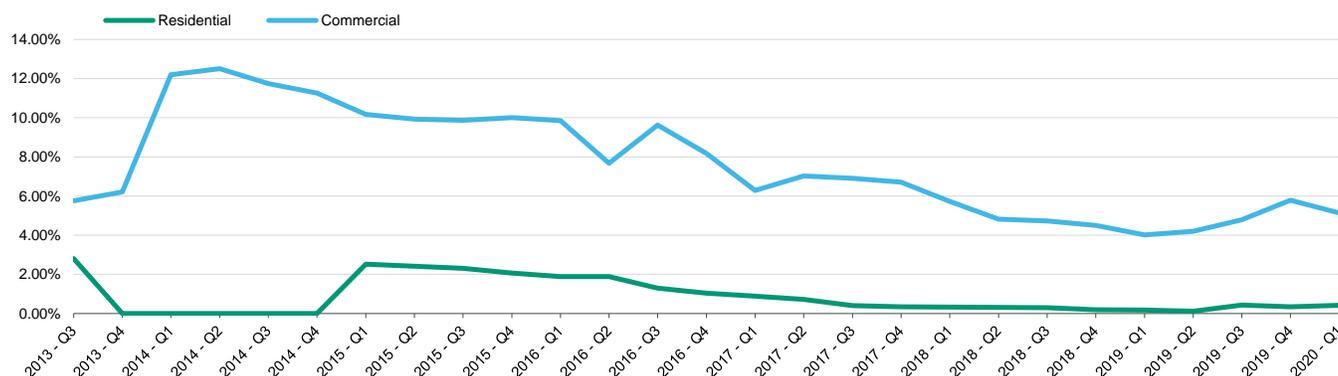
Austrian bank BAWAG increased the share of Dutch loans in its mortgage covered bond pool to almost 9% by June and plans to increase this to above 10% by the end of 2020.² The growing share of Dutch mortgages increases cover pool diversification, a credit positive for BAWAG's mortgage covered bonds.

BAWAG started originating Dutch residential mortgages at the end of 2019 and added Dutch loans to its cover pool from the first quarter of 2020. By 30 June, the share of Dutch mortgages in the cover pool was 8.9%, up from 1.1% at 31 March. Austrian mortgages make up most of BAWAG's cover pool, so the growing share of Dutch loans increases pool diversification.

It is common for Austrian covered bond programmes to include foreign assets in cover pools. However, the share of foreign assets in BAWAG's cover pool is much higher than average for Austrian cover pools. The share of foreign assets is also usually higher in commercial sub-pools than in residential sub-pools in Austria, but this is not the case for BAWAG. Between 2014 and 2020, the share of foreign assets in Austrian mortgage programmes we rated averaged 1% in residential sub-pools (with the highest share of around 2%-3% in 2015) and 7.7% in commercial sub-pools (with the highest share of around 10%-12% in 2014-2015), as Exhibit 1 shows.

Exhibit 1

Share of foreign residential mortgages in Austrian cover pools is low on average Simple average share of non-Austrian assets in mortgage cover pools as % of total pool



Source: Moody's Investors Service

Expected default probability for Dutch mortgages is particularly low

We assume particularly low default probabilities for Dutch residential mortgages. As a result, we expect the growing share of Dutch mortgages in the BAWAG cover pool will be positive. We base our default probabilities on benchmark loan features, which vary in each country.³

Our collateral score for BAWAG's cover pool improved in the second quarter of 2020 because of the issuer's addition of the Dutch mortgages. We expect our collateral score for BAWAG's cover pool will continue to improve as the share of Dutch loans increases, given the low default probability for Dutch loans. The collateral score is our measure of cover pool quality.

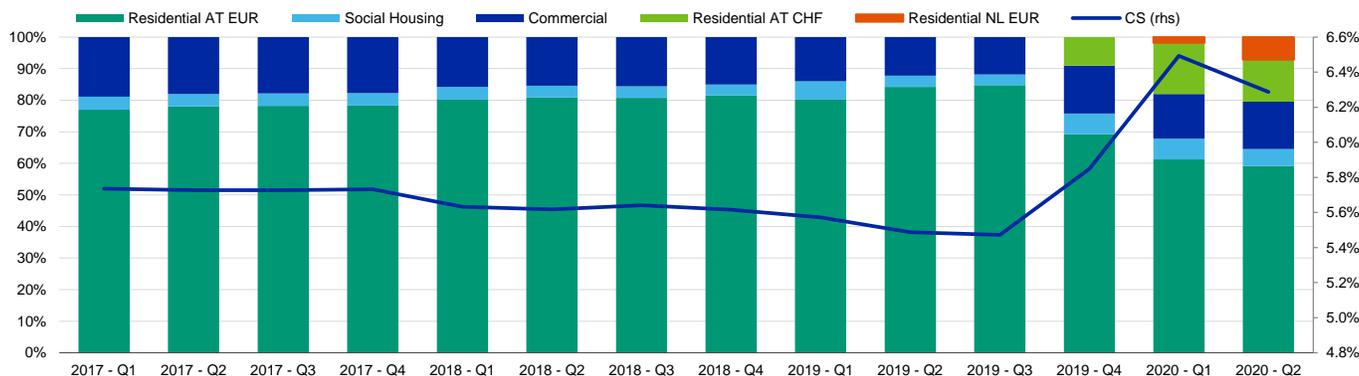
As of 30 June, our collateral score for BAWAG's cover pool was 6.3% (Exhibit 2), which is significantly better than the Austrian market average of 9.1% and largely reflects the quality of the pool's residential mortgages, given these accounted for 89.0% of the total pool as of June (Exhibit 3).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 2

BAWAG mortgage cover pool collateral score improved in the second quarter of 2020

Collateral score and contribution to the score by asset type



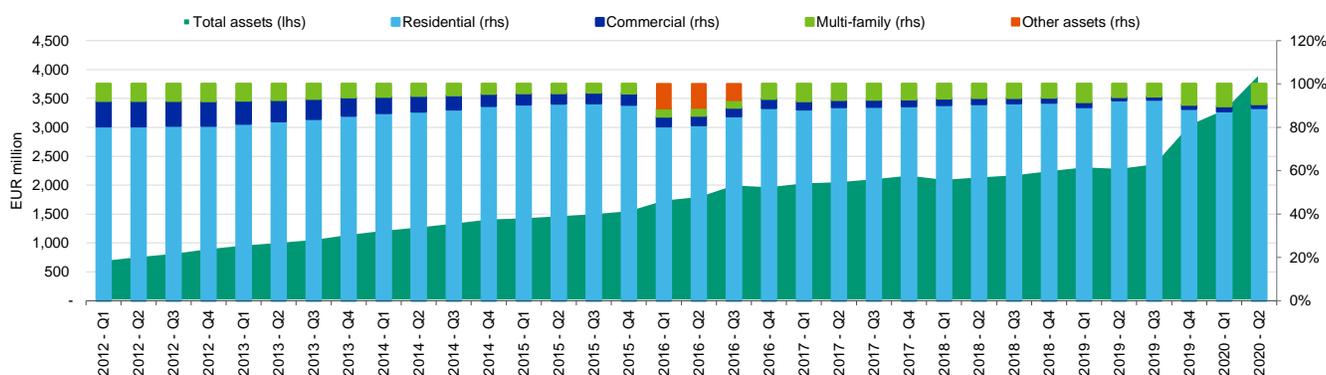
Note: AT = Austria. NL = Netherlands. CS = Collateral score.

Source: Moody's Investors Service

Exhibit 3

Most assets in BAWAG cover pool are residential mortgages

Total outstanding cover pool balance and share of balance by asset type



Sources: BAWAG, Moody's Investors Service

Dutch cover pool mortgages benefit from government guarantee scheme

All Dutch mortgages in BAWAG's cover pool benefit from the Dutch national mortgage guarantee scheme (Nationale Hypotheek Garantie, or NHG), which is credit positive.

Under the NHG, the Homeownership Guarantee Fund (Stichting Waarborgfonds Eigen Woningen, Aaa)⁴ covers losses to lenders after the foreclosure process for defaulted loans.⁵ This guarantee may substantially reduce losses on cover pool mortgages if borrowers default.

Euro-denominated Dutch mortgages do not increase foreign currency risk

All Dutch mortgages in BAWAG's cover pool are Euro-denominated, so they do not increase foreign currency risks.

This differs to BAWAG's addition of Swiss Franc-denominated residential mortgages to the cover pool in the fourth quarter of 2019, which increased foreign currency risk and worsened the pool's collateral score. The Swiss Franc-denominated residential mortgages were 6.4% of BAWAG's total cover pool as of 30 June.⁶

Moody's related publications

Rating Methodology

- » [Moody's Approach to Rating Covered Bonds, June 2020](#)
- » [Moody's Approach to Rating RMBS Using the MILAN Framework, May 2020](#)

Sector research

- » [Covered Bonds: Sector update – Q1 2020: Coronavirus outbreak not yet reflected in performance, May 2020](#)
- » [Covered Bonds - Europe: 2020 Outlook - Credit quality will remain strong despite slowing global economy, December 2019](#)
- » [Covered bonds - Global: 2020 Outlook, December 2019](#)
- » [Covered Bonds - Austria: Sector update - Robust fundamentals support credit quality, December 2019](#)
- » [Structural Protection Mechanisms for Non-EEA Assets in German Cover Pools, July 2014](#)

Performance Overview

- » [BAWAG P.S.K. - Mortgage Covered Bonds, July 2020](#)

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.

Endnotes

- [1](#) The bank ratings shown in this report are the LT bank deposits rating, LT counterparty risk assessment and adjusted baseline credit assessment.
- [2](#) BAWAG's mortgage covered bonds programme is governed by the Austrian Covered Bond Act (Gesetz betreffend fundierte Bankschuldverschreibungen).
- [3](#) See [Moody's Approach to Rating RMBS Using the MILAN Framework](#), May 2020.
- [4](#) The Dutch government and municipalities represented by the Association of Dutch Municipalities (Vereniging Nederlandse Gemeenten) set up the Stichting Waarborgfonds Eigen Woningen.
- [5](#) Subject to a loss coverage formula.
- [6](#) As of 30 June, 5.6% of the cover pool were Swiss Franc-denominated residential mortgages and 0.8% were Swiss Franc-denominated commercial mortgages.

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

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