

## BAWAG AG

*Management keeps putting on the golden calf bank show – yet all summer long, no one bought a ticket*

14 September 2023



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- IV. 600,000 Customers Lost Since IPO – the Remaining Ones Complain and Sue
- V. Corporate Governance Is Potentially Last-in-class With an Absentee Management Team Home Alone

## I Executive Summary

# Executive summary

- Almost three months have passed since we voiced our concerns around the sustainability of BAWAG Group AG's ("**BAWAG**") business model and the business ethics of its management
- BAWAG's management has refrained from addressing any of our criticism and its supervisory board has been inactive and silent
- Meanwhile, most news flow has been negative for BAWAG's golden calf business model:
  - **Austrian politicians are increasingly vocal about intervention in the banking market** to counteract low deposit betas and unfair interest rates for borrowers<sup>(1)</sup>, in particular for unsecured/overdraft facilities
  - **Concerning read-across from US CRE lenders** have shown elevated and rising risk costs (H1 results)
  - **Drop in European house prices** that does not bode well for BAWAG's broker-generated, low-quality mortgage book
  - **Pick-up in US consumer credit delinquency rates** – same expected for Europe
  - Increasing **regulators' focus on risk weights**, at odds with BAWAG's golden calf, risk-light story
  - No further prey to sack: **Lack of M&A transactions** by BAWAG
  - BAWAG's H1 report reveals that its **management** is using the bank to finance itself **at lower interest rates than what the Austrian government** has to pay, the golden calf "arm's length"?
  - **BAWAG's CDS spreads have widened** by more than 10% since 29 June, implying further stress to come
  - **Ongoing customer revolt regarding deplorable service levels**

**Our scepticism regarding BAWAG is spot on, no one is buying tickets for the show... – since the collapse of Silicon Valley Bank, BAWAG has been the worst performing bank in the Euro Stoxx Banks index<sup>(2)</sup>**

# Executive summary (cont'd)

- We have invested additional resources analysing BAWAG's business model, risk profile and compliance track record. Our findings worry us even more:
  - **Questionable credit quality** due to growth in consumer finance and structured commercial real estate deals with worrying collateral valuations, excessive sizing and country mix
  - **Yet, BAWAG's risk weight density has declined** faster than peers' despite BAWAG upping the riskiness of its loan book
  - Certain **IRB model assumptions** seem **unexplainably far off from the peer group** suggesting a potential need to increase risk weighted assets and to capitalise the bank better
  - **BAWAG's leverage** (total assets/tangible book value) **has meaningfully increased since its IPO**
  - Its lack of focus on customer offerings has resulted in the **loss of c. 25% of its customer base since IPO – we would argue that deposit funding is at risk going forward**
  - **Numerous VKI-lawsuits<sup>(1)</sup> against BAWAG** show lack of customer care and a rotten BAWAG-culture
  - **The timing of share purchases by BAWAG's management** would qualify as a compliance breach at most banks
  - **Loans to BAWAG's management** are: (i) the largest across European banks, (ii) potentially a breach of the Austrian Code of Corporate Governance and (iii) in no proportion to the deposits by management
  - The **physical absence of BAWAG's management** from the headquarters and **large pay-gap drive key talent away** from the bank – **many senior departures (in risk management, product and customer service) since Dec-2020**

**We reiterate our concerns that BAWAG's business model and compliance approach is more akin to a credit hedge fund than a retail and commercial bank – the golden calf is breathing heavily**



## Trying to Shed Light on BAWAG's Asset Quality

# Chapter summary

- Through outside-in research as well as expert calls, we have tried to demystify the BAWAG golden calf
- We realised that BAWAG has been trying to feed the golden calf abroad – often in high-risk CRE or low-quality broker-originated loans
- We found many large exposures in far-flung countries with partially questionable collateral
- Based on our loan book sample, BAWAG seems to engage primarily in financial sponsor-led transactions within its CRE segment
- “Tiger Portfolio” displays an interesting example of BAWAG’s “conservative” and “collateralised” lending that went very wrong – we estimate that BAWAG’s exposure was wiped out in this financing of UK shopping malls
- We are very confused by BAWAG’s 0bps cost of risk in H1 2023 (Corp/RE segment) while many peers have reported a cost of risk north of 100bps in CRE segments
- BAWAG’s strongest growth segment since 2019 has been consumer & SME finance (+56% since Q1 2019) that accounts for EUR 6.4bn (18%) of BAWAG’s loan book

**When regulators look for the golden calf, they’ll find an aged catfish and would likely ask for a reboot of risk/capital calculations**

# BAWAG's CRE and corporate lending seem to primarily support international deal-making by financial investors (1/2)








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*70% of loans we could identify remind us of German Landesbanken before the financial crisis engaging in risky international real estate and project finance without any connection to relevant client groups*

## Petrus' risk assessment<sup>(1)</sup>

## Examples of recent lending activity by BAWAG<sup>(2)</sup>

Is a 30% assumed decline sufficient in a stress test?

Region	Collateral	Size	Related party	Date	Country	Asset class	Amount	Borrower	Comment
●	●	●	●	2022		Real Estate - Logistics	NA	Kennedy Wilson and GIC sponsored ICAV	Financing used to acquire a new portfolio of warehouses
●	●	●	●	2022		Real Estate - Mixed	GBP 200m	NA	Warehouse loan for residential/multi-family/mixed-use financings
●	●	●	●	2022		Real Estate - Hospitality	NA	Starwood	Repurchase agreement to finance Starwood's term loan
●	●	●	●	2021-2022	Germany /Italy	Real Estate - Logistics	NA	Joint venture between Cerberus and Macquarie	Loan-on-loan financing for development and construction of six last mile logistics distribution centres
●	●	●	●	2021		Real Estate - Mortgages/ buy-to-let property	EUR 105.5m (down from EUR 347m) - together with MS	Promontoria Scariff (Cerberus subsidiary)	Financing of purchase of mortgages and buy-to-let property loans in 2018
●	●	●	●	2021		Real Estate - Mixed	NA	Earlsfort Capital Partners JV	Loan-on-loan financing of a mixed-use portfolio of assets
●	●	●	●	2020		Real Estate - Residential	NA	NA	Acquisition of assets of a mortgage facility secured by five multi-family complexes
●	●	●	●	2020	Germany /Belgium	Real Estate - Office/Logistics	EUR 200m	Blackstone	Participation in the senior loans secured over a German office/ logistics portfolio and Belgian office portfolio
●	●	●	●	2020		Real Estate - Mixed	NA	Avenue Capital Group	Amendment and restatement of a loan-on-loan financing in respect of mixed portfolio of investment assets
●	●	●	●	2019		Real Estate - Hotel	NA	NA	Amendment and restatement of existing loan-on-loan facility secured against a hotel development in east London

● High risk ● Medium risk ● Low risk

Notes: (1) **Region** (at time of loan origination): High risk = country without BAWAG office, Medium risk = Ireland (partially covered by London office), Low risk = country with BAWAG presence; **Collateral**: High risk = Office CRE, Retail CRE, Development financing, Mezzanine structure, Medium risk = Other CRE, Low risk = Senior corporate loans and Logistics; **Size** (EUR): High risk = >100m exposure, Medium risk = 20-100m exposure, Low risk = <20m exposure; **Related party**: High risk = related party lending (e.g. Cerberus); (2) Not all loans are still on BAWAG's balance sheet but should give an indication of the risk appetite.

Source: Company filings, EBA, UK Companies House, United States SEC, The Irish Times, The Real Deal, Real Estate Capital Europe, CoStar Group, [www.lw.com/en/people/jeremy-trinder](http://www.lw.com/en/people/jeremy-trinder), [www.starwoodnavreit.com](http://www.starwoodnavreit.com)

# BAWAG's CRE and corporate lending seem to primarily support international deal-making by financial investors (2/2)

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*There are many examples of BAWAG taking on large exposures (EUR >100m) in individual transactions in geographies that it has no presence in*

## Petrus' risk assessment<sup>(1)</sup>

## Examples of recent lending activity by BAWAG<sup>(2)</sup>

Region	Collateral	Size	Related party	Date	Country	Asset class	Amount	Borrower	Comment
●	●	●	●	2019		Real Estate - Office	USD 238m	JV by Prudential Financial and others	Financing purchase of three Gateway Center buildings in Newark. The purchase price was USD 300m (implied LTV of ~80%)
●	●	●	●	2018		Corporate - Refinancing	Two loans: EUR 459m and 54m (with Citi and CS)	Hotel Investment Partners (backed by Blackstone)	Refinancing and extension of original loan by Citi and Credit Suisse
●	●	●	●	2016	CEE: Slovenia/Croatia	Corporate (Mezzanine)	EUR 35m (out of 200m, syndic. by JPM)	Lone Star	Financing of Lone Star's EUR 328m acquisition of property company Centrice from bad bank Heta (implied LTV of >60%)
●	●	●	●	2014		Real Estate - Retail (Mezzanine)	NA	Lone Star	Financing of Lone Star's acquisition of the "Tiger portfolio" (7 UK shopping centres)
●	●	●	●	2014		Real Estate - Office	EUR 245m (together with Credit Suisse)	Lone Star	Financing of Lone Star's purchase of a Dutch office portfolio. The purchase price was ~EUR 350m (implied LTV of 70%)
●	●	●	●	2014		Real Estate - Standing assets and developments	GBP 780m (together with Nomura)	Cerberus	Financing of all NAMA's Northern Ireland borrowers' domestic and overseas property and development loans (implied LTV of ~65%)
●	●	●	●	2014		Corporate (term loan B)	GBP 50m	Partnership between Aviva Investors and Quintain's Quercus Healthcare Property	First healthcare loan in the UK; total loan size was GBP 225m
●	●	●	●	2013		Real Estate - Shopping centre	EUR 32m	Islazul (owned by Ivanhoe Cambridge and Grupo Lar)	Replaced M&G Investments' ticket (50% LTV). Other debt providers include West Immo and Natixis

*Is a 30% assumed decline sufficient in a stress test?*

● High risk ● Medium risk ● Low risk

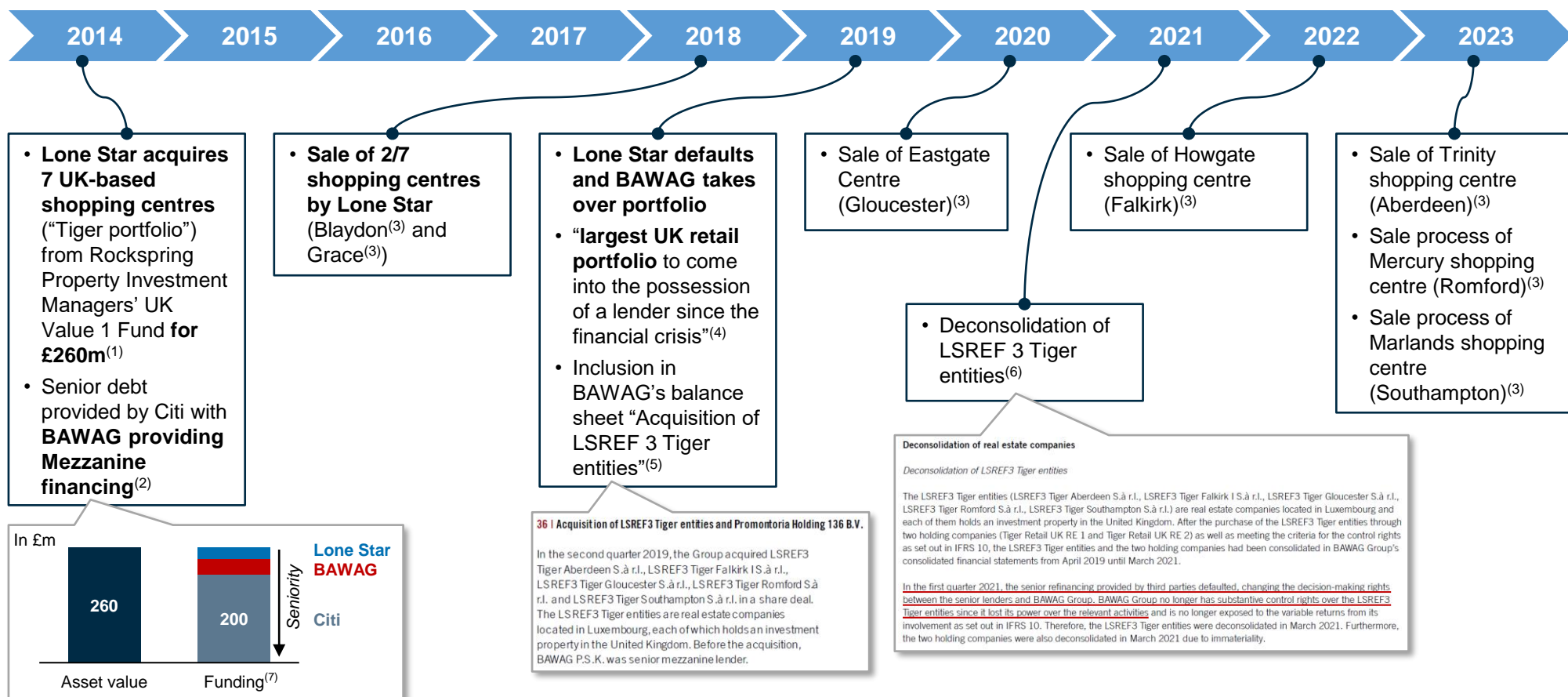
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# “Tiger Portfolio” – an example for high-risk lending going very wrong (1/2)

*Financing of the “Tiger Portfolio” sets a good example of BAWAG’s risk appetite – getting involved in sponsor-led, highly-levered transactions that require hairy workouts and risk to valuation of collateral*

## Timeline of BAWAG’s “Tiger Portfolio” history



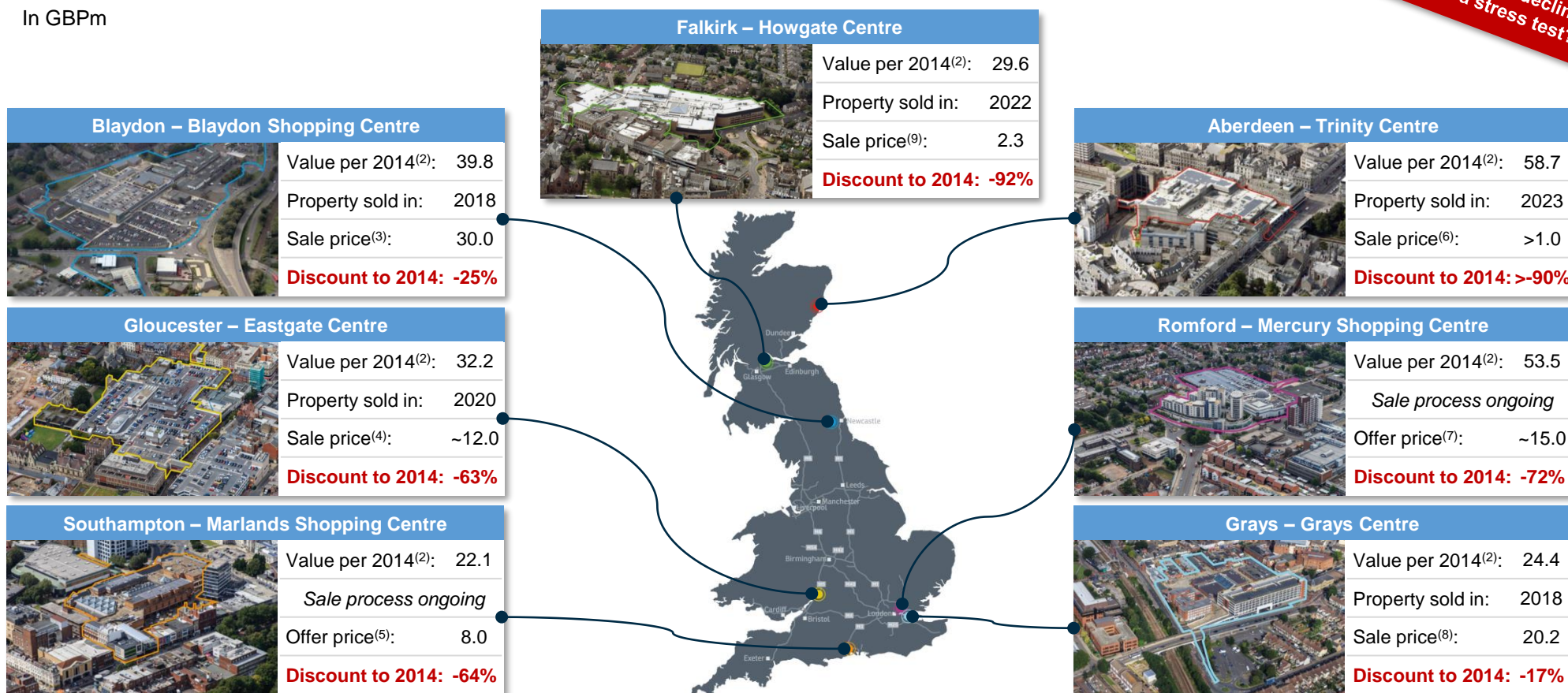
# “Tiger Portfolio” – an example for high-risk lending going very wrong (2/2)

**BAWAG’s “conservative underwriting with a focus on secured lending”<sup>(1)</sup> does not look conservative to us; we estimate that most of BAWAG’s mezzanine financing was wiped out in this transaction**

## Overview “Tiger Portfolio”

In GBpM

**Is a 30% assumed decline sufficient in a stress test?**



Notes: (1) Page 16 Q1'23 presentation; (2) Refers to value from marketing brochure from 2014 ([https://issuu.com/cwcreativeworld/docs/project\\_tiger\\_summary\\_brochurev1.1](https://issuu.com/cwcreativeworld/docs/project_tiger_summary_brochurev1.1)); (3) <https://realassets.ipe.com/news/praxis-expands-retail-portfolio-with-blaydon-shopping-centre-deal/10027311.article>; (4) <https://www.gloucestershirelive.co.uk/news/gloucester-news/gloucester-city-council-buys-eastgate-3722263>; (5) <https://gcw.co.uk/investment/712/the-marlands-southampton-so14-7sj>; (6) <https://aberdeenbusinessnews.co.uk/boost-for-union-street-as-local-buyer-snaps-up-the-trinity-centre/>; (7) Based on calls with real estate brokers familiar with the transaction; (8) <https://www.allsop.co.uk/insights/gray-s-shopping-centre-sells-for-202m/>; (9) <https://www.falkirkherald.co.uk/business/falkirk-howgate-shopping-centre-sells-at-auction-3699815>.

Source: Company filings, websites per detailed footnotes above

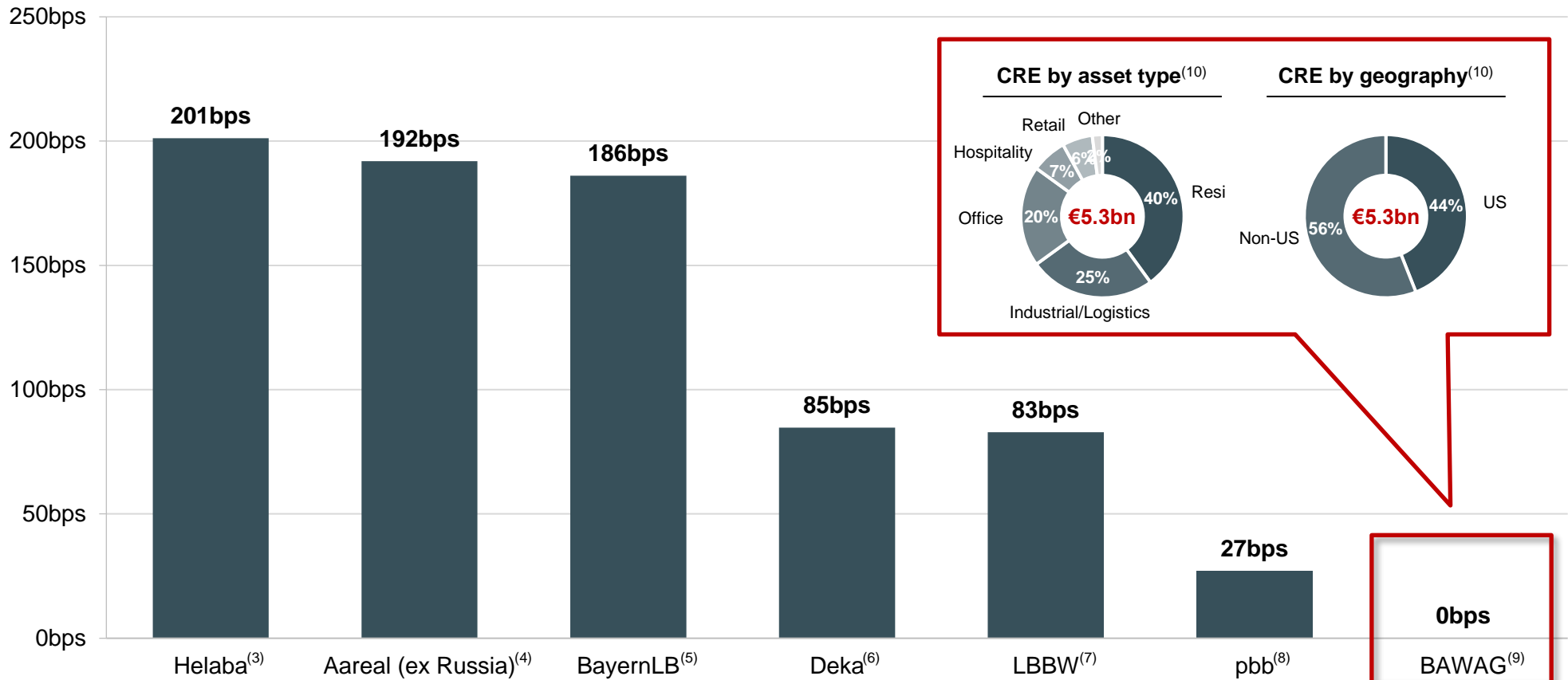
# BAWAG's reported cost of risk does not make any sense to us – we interpret this as a “kicking the can down the road” approach

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*Cost of risk consensus of <30bps<sup>(1)</sup> for 2023-2025 is meaningfully too low from our perspective*

## Benchmarking of annualised H1 2023 CoR for Western Europe/US CRE exposed lenders<sup>(2)</sup>

Annualised CoR (bps of avg. RWA)

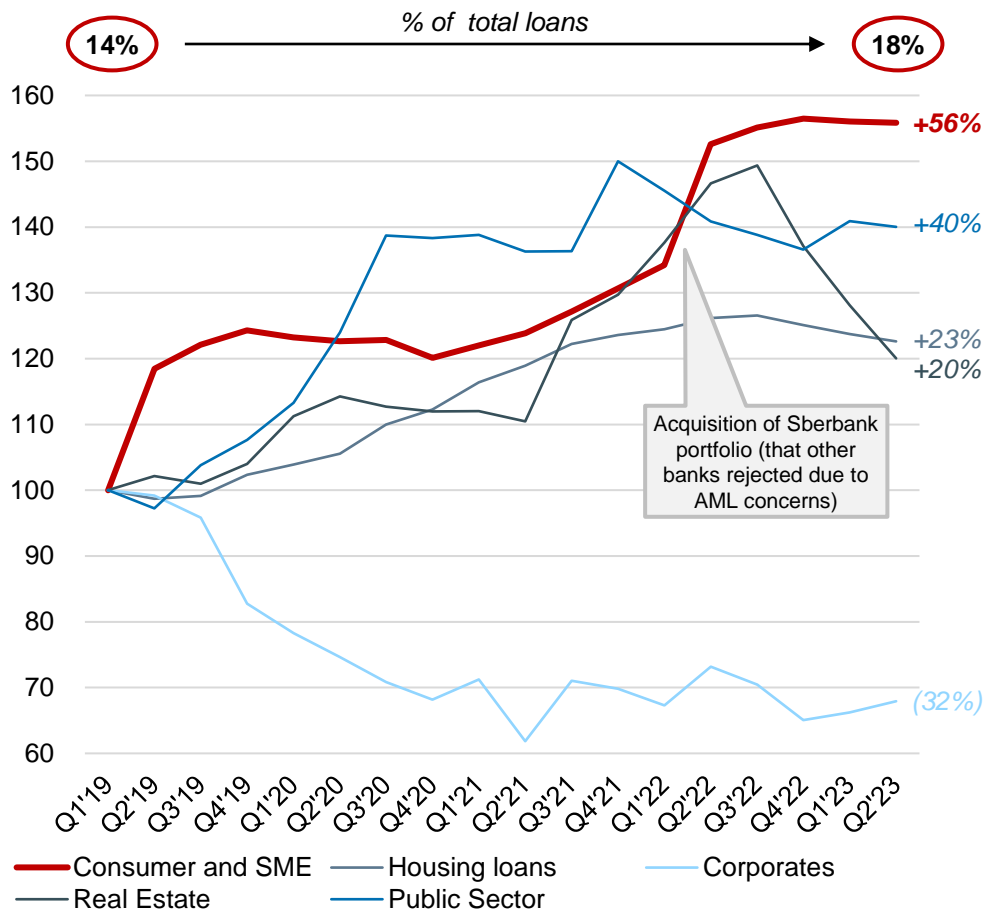


Notes: (1) <https://www.bawagroup.com/resource/blob/46554/f4893fb94a5f030ea4f50c9e957d1a08/202204-bawag-group-analyst-consensus-q1-data.pdf>; (2) CoR defined as LLP / avg. RWA; (3) Refers to Real Estate segment; (4) Refers to Group excl. Russia-related provisions; (5) LLP per Real Estate Business Area and RWA per Real Estate & Savings Banks/ Financial Institutions; (6) Refers to Financing segment; (7) Refers to Real Estate/Project Finance; (8) Refers to Real Estate Financing; (9) Refers to Corporates/Real Estate and Public Sector; (10) Total portfolio in EURbn per Q2 2023 presentation.

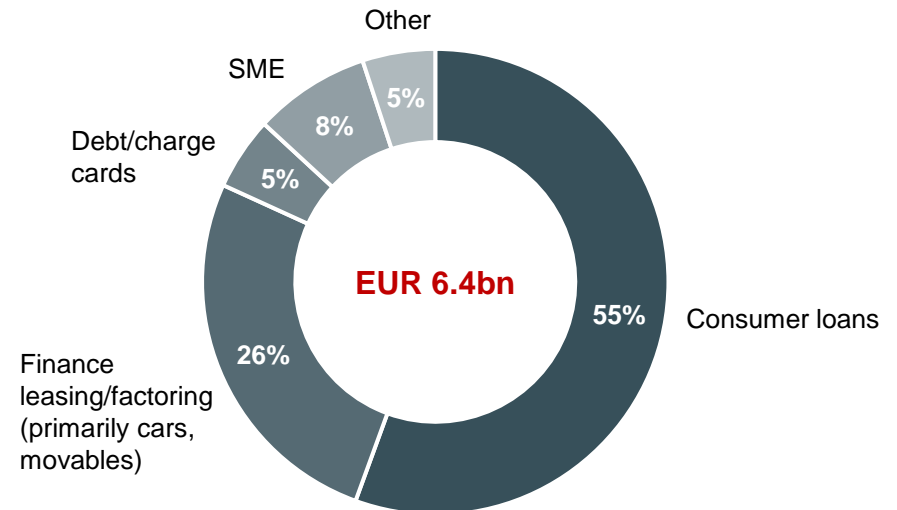
Source: Company filings, Petrus Advisers analysis

# BAWAG has recently grown strongly in high-risk consumer finance

Evolution of BAWAG lending categories (indexed)<sup>(1)</sup>



Breakdown of Consumer & SME loan book (Q2'23)



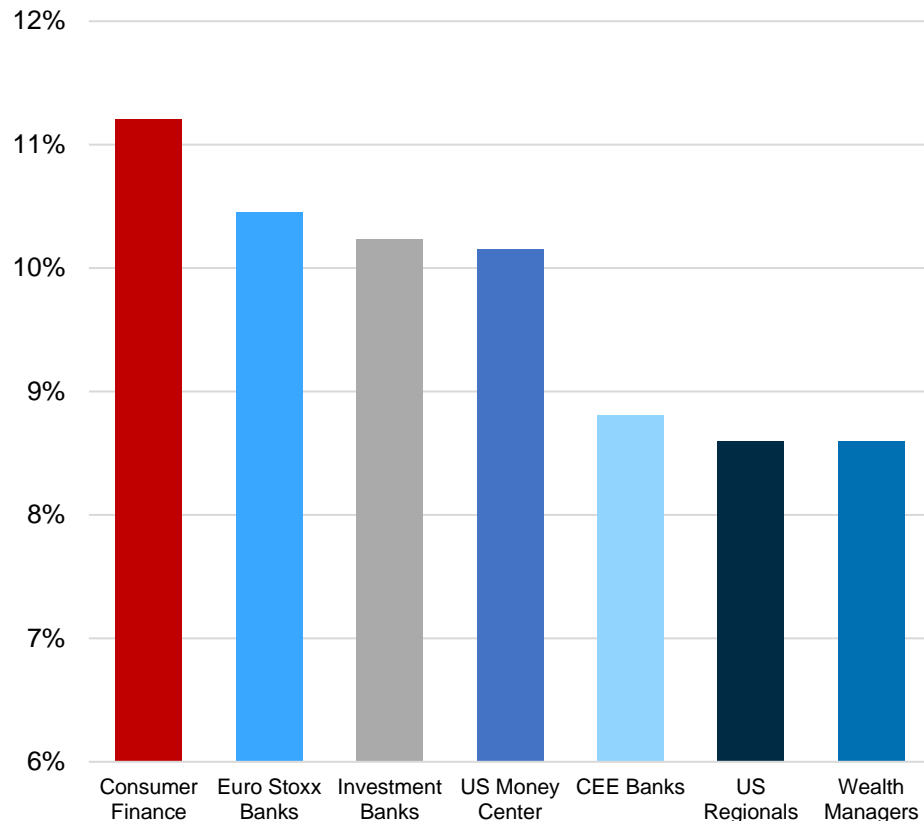
**Consumer and SME lending accounts for 18% of total loan book**

Notes: (1) Data from Q1'19 onwards due to change in reporting structure. Refers to assets split by products & portfolios.

Source: Company filings

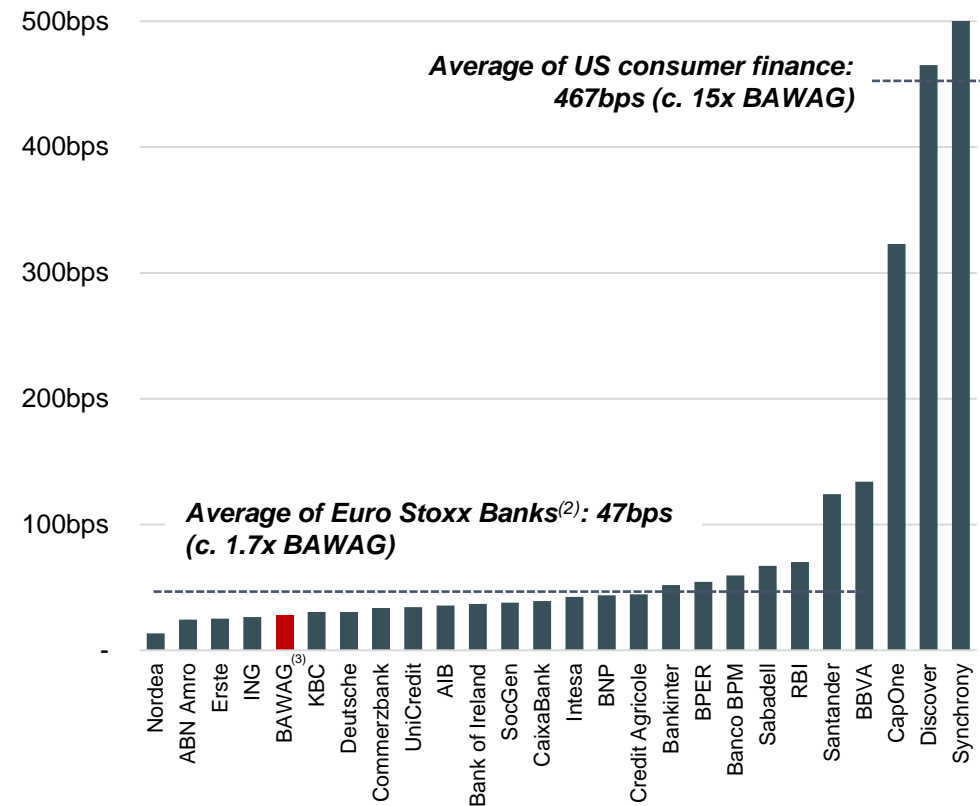
# Consumer finance comes with a higher cost of equity and a higher cost of risk – this is not reflected in consensus

## Cost of equity (CoE) through-the-cycle<sup>(1)</sup>



## Cost of Risk (CoR)

2024E median consensus (loan loss provisions/net loans)



Notes: (1) Calculated as market implied cost of equity based on consensus RoE, observed P/BV and assuming 2% growth. Median of weekly data from Jan-2002 until Jul-2023. US Money Center includes BofA, JPM, Wells Fargo and Citi; IB includes GS and MS; Consumer Finance includes Capital One, Discover, and Synchrony; US Regionals includes Truist, First Republic, Western Alliance, Zions, PacWest; Euro Stoxx Banks (excl. Fineco); Wealth Managers includes Julius Bär, EFG, Rathbones, St James's, VLK and Quilter; CEE includes Moneta, Komerční, mBank, Pekao, PKO, ING Bank Śląski and OTP; (2) Fineco was excluded from the analysis due to different business model. We have included RBI instead due to Austrian listing; (3) Median consensus figures as reported on BAWAG's website, available at <https://www.bawaggroup.com/resource/blob/46554/f4893fb94a5f030ea4f50c9e957d1a08/202204-bawag-group-analyst-consensus-q1-data.pdf>.

Source: Company filings, Factset as per 13-Sep-2023, Petrus Advisers analysis

# Dutch mortgages: opportunistic market opportunity or falling knife?

*We are sceptical about the accuracy of BAWAG’s collateral valuation given the infrequent assessment by outsiders and deterioration in the underlying markets*

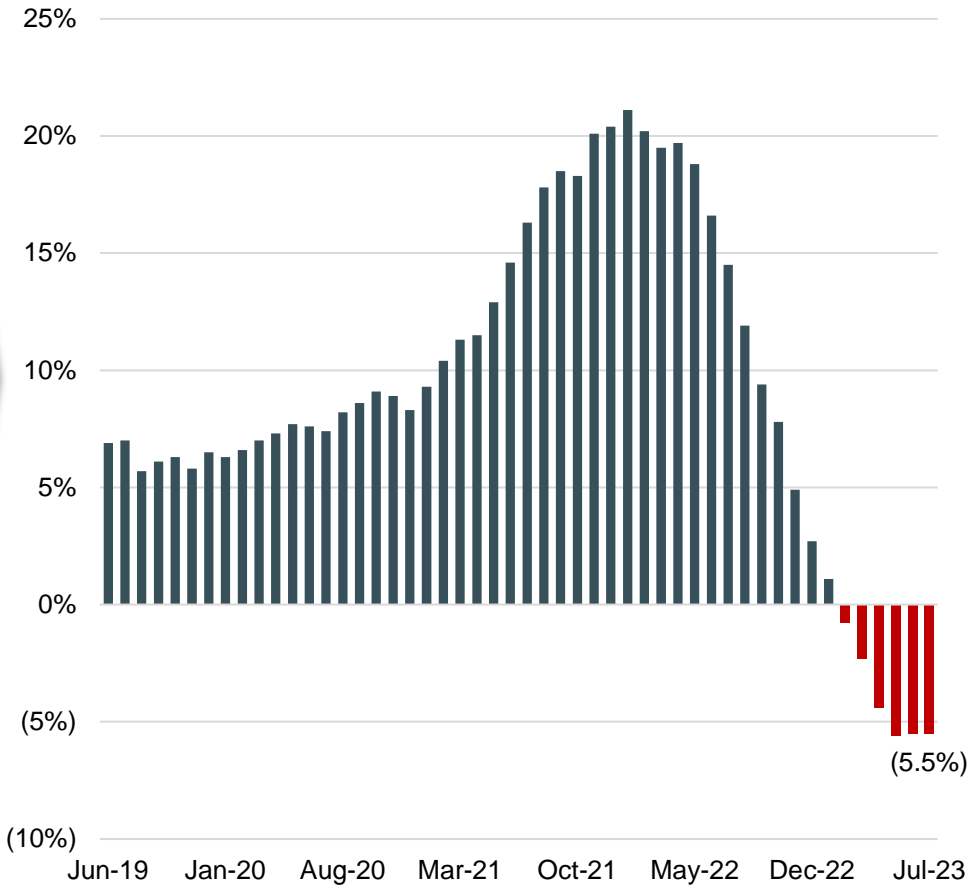
## Extract from BAWAG’s disclosure report (2022)<sup>(1)</sup>

Table 4: Types of collateral and collateral valuation and management

Type of collateral	Estimated values	Frequency of valuation
Financial collateral	Market value according to current GEOS price data, for example (with volatility adjustments taken into account)	Automatic daily valuation except for deposits at other banks
Residential real estate	Market value	The centralized Residential Real Estate Appraisal team determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. Valuation of real estate properties in other countries is also done by independent experts according to international standards. The periodic review and updating of property values is performed at least annually on a model-supported basis for average Austrian residential properties, based on the Halifax House Price Index for residential properties in Great Britain and by MAC (MeilleursAgents.com) for French residential properties. <u>The values of the properties in the Netherlands are periodically updated based on the CBS index (Centraal Bureau voor de Statistiek)</u> and the real estate properties situated in Germany are periodically checked with the help of the market volatility concept (“Marktschwankungskonzept”) and individually checked for all higher-priced real estate properties at least every three years.
Commercial real estate	Market value	The value of commercial real estate is assessed by an independent expert at the current market value, at the maximum. <u>Once a year</u> , the risk units additionally check whether any material changes have occurred. A new valuation is ordered where warranted. A new valuation is conducted by the Real Estate Appraisal department <u>at least every three years</u> for loans > € 3 million.

## CBS index<sup>(2)</sup>

Price development of existing owner-occupied dwellings (YoY % change)



Notes: (1) Page 33/113 2022 Disclosure Report; (2) <https://www.cbs.nl/en-gb/news/2023/34/house-prices-also-5-5-percent-lower-in-july>.  
Source: Company filings, CBS, Kadaster



## RWA Shocker Incoming?

- BAWAG's risk weight density has declined by 9%pts since its IPO to c. 37% – significantly lower than Erste's despite having a far riskier asset side compared to the leading local savings bank
- We are surprised by a decline that is twice as steep as the sector average, especially since BAWAG has grown mainly in CRE and consumer finance
- Risk-weights aside, BAWAG has – until recently – consistently increased leverage (total assets/tangible book value) since its IPO
- When digging into disclosure reports, we found that BAWAG is making aggressive assumptions in determining its IRB risk weights
- In the subcategories (Retail SME/Non-SME secured by property), BAWAG has by far the lowest risk weight density in comparison to peers in the Euro Stoxx Banks
- Aligning these risk weights (that account for c. 20% of total exposure) to the average of the index leads to RWA uplifts north of EUR 1bn and a capital destruction of EUR 130m

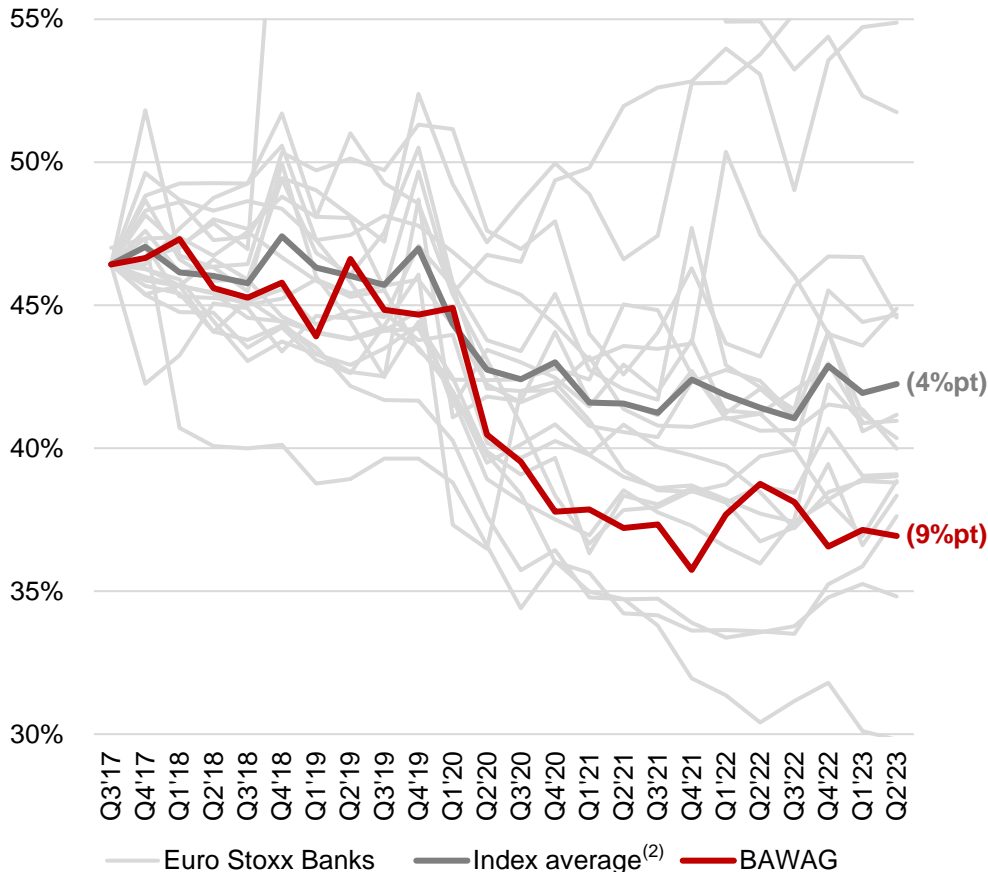
# The risk weight conundrum: Strong decline despite riskier lending<sup>(1)</sup>

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*It is hard to understand how a bank with BAWAG's risky loan book can have a lower risk weight density than a conservative mortgage-focused franchise like Erste*

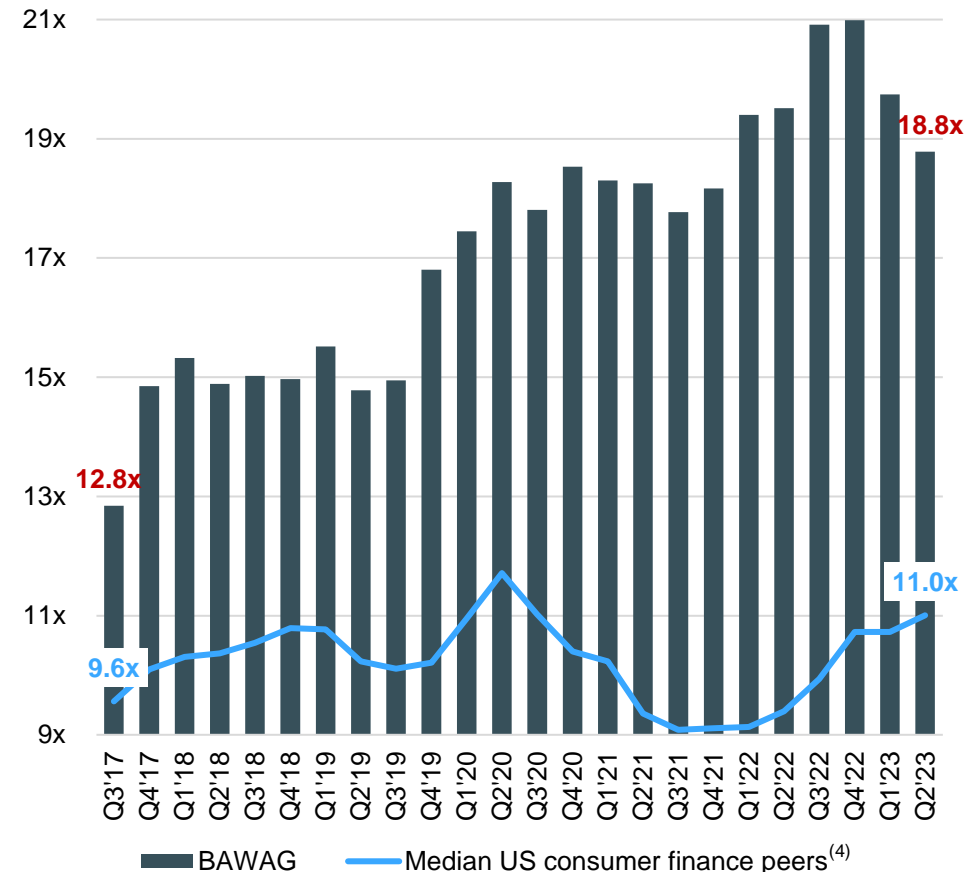
## Risk weight density ("RWD") since BAWAG's IPO

Indexed to BAWAG RWD<sup>(1)</sup> (based on quarterly rate of change, per Q2'23)



## Leverage since BAWAG's IPO

Total assets/TBV (x)<sup>(3)</sup>



Notes: (1) Risk weighted assets/total assets; (2) Defined as Euro Stoxx Banks (excl. Finco but including RBI); (3) Refers to tangible common equity as reported by BAWAG (deducted dividend accruals; approved share buyback of €325m deducted in 2022); (4) Median spanning Capital One, Discover, and Synchrony. Excludes preferred stock. For reference, Cembra Money Bank is also <10x.

Source: Company filings, Petrus Advisers analysis

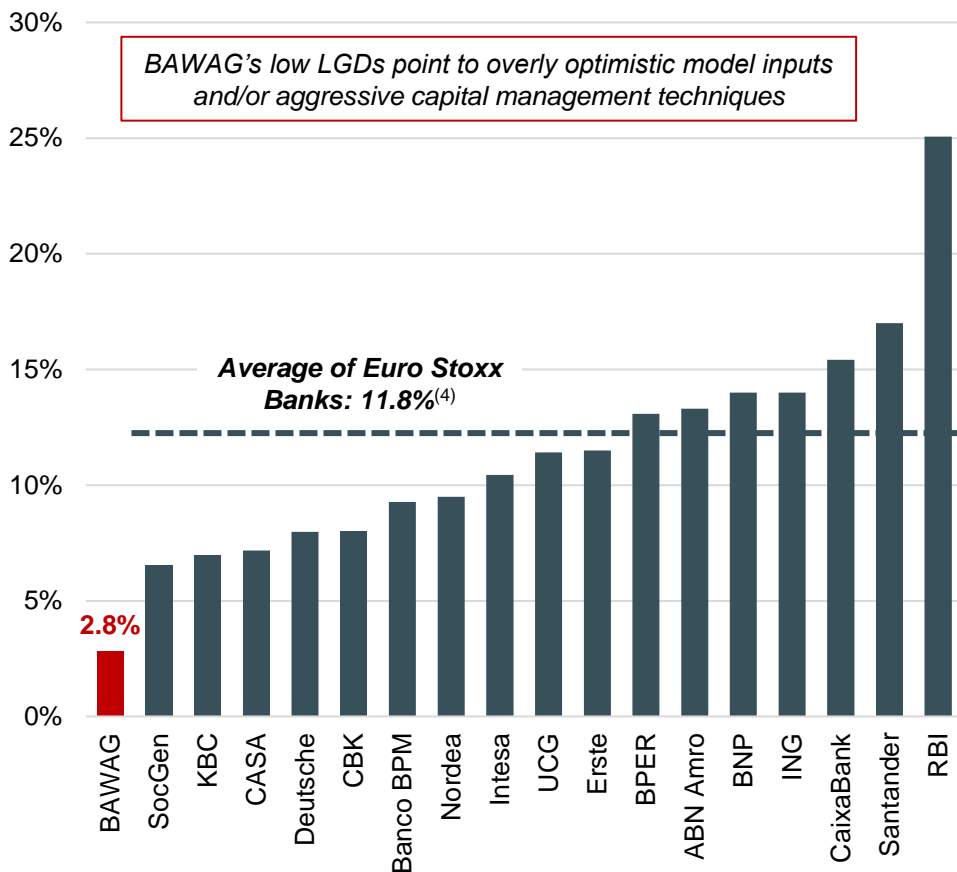
# The risk weight conundrum: BAWAG lower than all its peers<sup>(1)</sup>

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**IRB models allow banks more flexibility when determining risk weights – BAWAG seems to exploit this flexibility heavily (for its retail exposure<sup>(2)</sup>)**

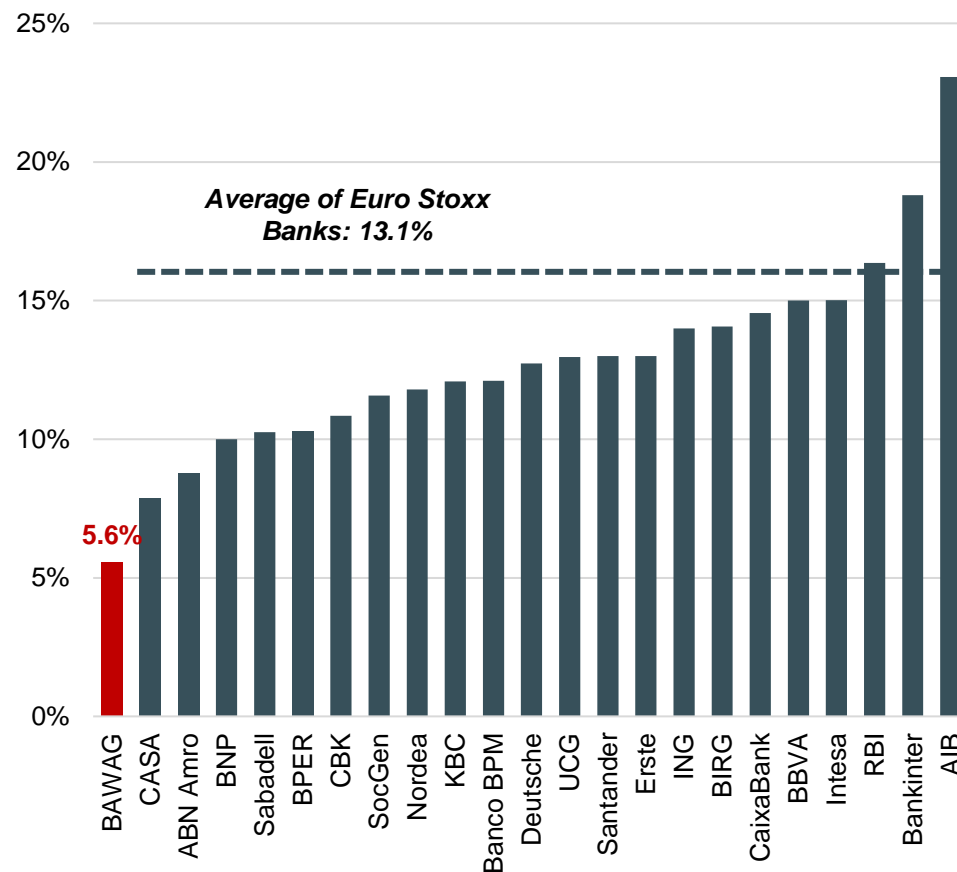
## Risk weight (Retail / SME / secured by property)<sup>(3)</sup>

Illustrative example: PD (probability of default) category 0.25 to <0.50



## Risk weight (Retail / non-SME / secured by property)<sup>(3)</sup>

Illustrative example: PD (probability of default) category: 0.25 to <0.50



Notes: (1) Defined as Euro Stoxx Banks (excl. Fineco but incl. RBI); (2) In the exposure class "retail exposures" (Article 147 (2) point (d) CRR), the parameter PD as well as LGD and conversion factors are based on the Group's own estimates. We understand that Dutch mortgages come at a lower risk weight, but that cannot explain the delta to peers; (3) Refers to CR6-B (IRB approach – Credit risk exposures by exposure class and PD range); (4) Excludes Bank of Ireland and AIB due to unavailability of data.

Source: Company filings (Pillar 3 reports), Petrus Advisers analysis

# Illustrative risk weight benchmarking points to EUR 130m capital at risk

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*Applying the average risk weight density of the Euro Stoxx Banks to BAWAG's exposures by category results in EUR 1bn higher RWA and need for EUR 130m additional CET1 capital (illustrative Petrus estimates)*

## IRB approach – Credit risk exposures by exposure class and PD range

Illustrative calculations

PD scale	Risk-weight (%)			Exposure	Risk-weighted-assets			Capital
	BAWAG	Index avg.	Delta		Reported	Adjusted	Delta	@12.25%
Retail – SMEs – Secured by immovable property collateral								
0.00 to <0.15	0.0%	4.3%	4.3%	0	0	0	0	0
0.15 to <0.25	1.9%	7.9%	6.0%	1	0	0	0	0
0.25 to <0.50	2.8%	11.8%	9.0%	5	0	1	1	0
0.50 to <0.75	4.0%	15.3%	11.4%	7	0	1	1	0
0.75 to <2.50	10.2%	27.9%	17.7%	18	2	5	3	0
2.50 to <10.00	20.9%	56.6%	35.7%	71	15	40	25	3
10.00 to <100.00	30.6%	95.7%	65.1%	151	46	145	99	12
100.00 (Default)	0.0%	55.7%	55.7%	7	0	4	4	0
Sub-total				260	63	195	132	16
Retail – non-SMEs – Secured by immovable property collateral								
0.00 to <0.15	1.9%	4.2%	2.4%	450	8	19	11	1
0.15 to <0.25	3.0%	8.8%	5.8%	646	19	57	38	5
0.25 to <0.50	5.6%	13.1%	7.5%	1,851	103	242	139	17
0.50 to <0.75	9.8%	19.2%	9.4%	1,198	118	231	113	14
0.75 to <2.50	20.3%	31.2%	10.9%	1,578	321	493	172	21
2.50 to <10.00	36.8%	65.0%	28.2%	738	271	479	208	26
10.00 to <100.00	62.2%	109.7%	47.5%	110	68	121	53	6
100.00 (Default)	0.0%	67.7%	67.7%	43	0	29	29	4
Sub-total				6,614	908	1,671	763	93
Retail – Qualifying revolving								
0.00 to <0.15	3.1%	3.8%	0.7%	783	24	30	6	1
0.15 to <0.25	6.6%	7.7%	1.1%	123	8	10	2	0
0.25 to <0.50	12.2%	11.6%	(0.6%)	545	67	63	(4)	(0)
0.50 to <0.75	18.0%	41.8%	23.9%	14	2	6	4	0
0.75 to <2.50	37.9%	31.3%	(6.6%)	194	73	61	(12)	(2)
2.50 to <10.00	88.0%	75.3%	(12.7%)	87	77	66	(11)	(1)
10.00 to <100.00	227.2%	158.1%	(69.1%)	22	50	35	(15)	(2)
100.00 (Default)	0.0%	57.4%	57.4%	34	0	20	20	2
Sub-total				1,802	301	288	(13)	(2)

PD scale	Risk-weight (%)			Exposure	Risk-weighted-assets			Capital
	BAWAG	Index avg.	Delta		Reported	Adjusted	Delta	@12.25%
Retail – SMEs – Other								
0.00 to <0.15	8.3%	8.4%	0.0%	0	0	0	0	0
0.15 to <0.25	19.1%	13.5%	(5.6%)	1	0	0	0	0
0.25 to <0.50	29.0%	20.8%	(8.2%)	4	1	1	(0)	(0)
0.50 to <0.75	44.3%	31.2%	(13.1%)	7	3	2	(1)	(0)
0.75 to <2.50	54.4%	39.5%	(14.9%)	13	7	5	(2)	(0)
2.50 to <10.00	60.5%	50.8%	(9.7%)	42	25	21	(4)	(0)
10.00 to <100.00	79.0%	76.1%	(2.9%)	57	45	43	(2)	(0)
100.00 (Default)	0.0%	59.1%	59.1%	11	0	7	7	1
Sub-total				135	81	80	(1)	(0)
Retail – Non-SMEs – Other								
0.00 to <0.15	9.3%	10.1%	0.8%	114	11	12	1	0
0.15 to <0.25	14.5%	19.1%	4.6%	78	11	15	4	0
0.25 to <0.50	25.4%	30.4%	5.0%	624	159	190	31	4
0.50 to <0.75	29.4%	39.8%	10.4%	54	16	22	6	1
0.75 to <2.50	50.0%	56.3%	6.3%	654	327	368	41	5
2.50 to <10.00	61.2%	70.3%	9.1%	227	139	160	21	3
10.00 to <100.00	94.6%	107.8%	13.2%	56	53	60	7	1
100.00 (Default)	0.0%	78.3%	78.3%	114	0	89	89	11
Sub-total				1,921	716	915	199	24
Retail								
SMEs – Secured by immovable property collateral				260	63	195	132	16
Non-SMEs – Secured by immovable property collateral				6,614	908	1,671	763	93
Qualifying revolving				1,802	301	288	(13)	(2)
SMEs – Other				135	81	80	(1)	(0)
Non-SMEs – Other				1,921	716	915	199	24
Grand total				10,732	2,069	3,149	1,080	132

Disclosure report 2022:

*"In the exposure class "retail exposures" (Article 147 (2) point (d) CRR), the parameter PD as well as LGD and conversion factors are based on the Group's own estimates."*

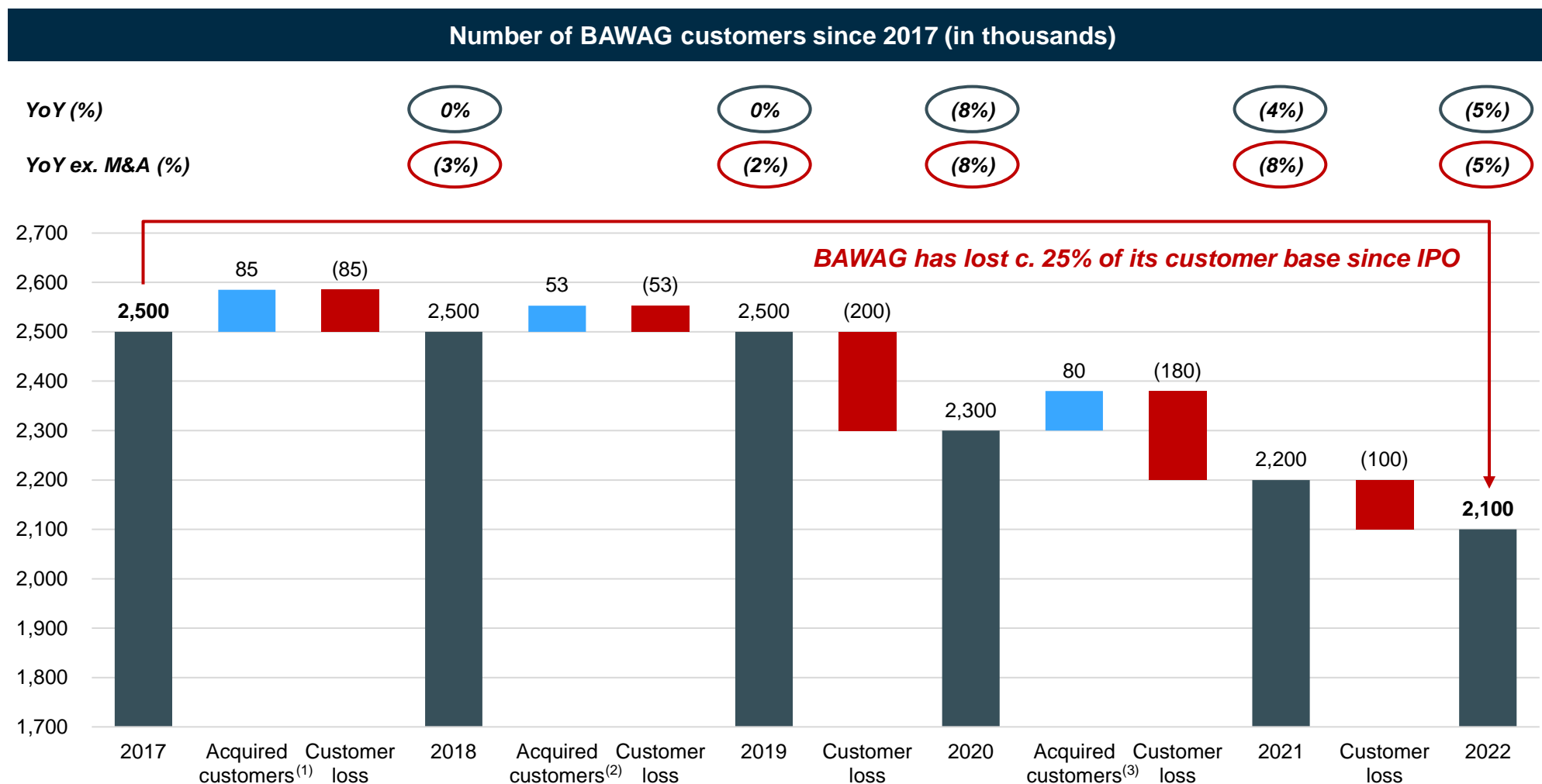
**IV**

**600,000 Customers Lost Since IPO – the  
Remaining Ones Complain and Sue**

- Since its IPO, BAWAG has lost c. 600k customers (i.e. almost every fourth of all customers has run away<sup>(1)</sup>)
- The remaining clients are increasingly unhappy as reflected in the latest survey from ÖGVS<sup>(2)</sup> published in Trend<sup>(3)</sup> (28-Jul-2023) on investment advice
  - BAWAG ranked last and its results decreased by 12%pts compared to the previous survey
- BAWAG's vulture culture and customer offering is also reflected in numerous VKI lawsuits
  - Recent successful lawsuits have evolved around illegal fees, inadmissible charging of interest and unlawful account conversion/termination
  - As an example, BAWAG charges a settlement fee in case of death of EUR 150, takes money to receive funds, charges for EU regulated "immediate transfers" and seems to extend payment terms which could help create "technical" deposits throughout its millions of transactions

# BAWAG has lost c. 25% of its customers since IPO

*Customer loss in the region of 600k since 2017*



Notes: (1) Includes Deutscher Ring; (2) Includes BFL and Zahnärztekasse; (3) Includes Hello bank!

Source: Company filings (press releases), Petrus Advisers analysis

# The magnitude of BAWAG's customer dissatisfaction is apparent

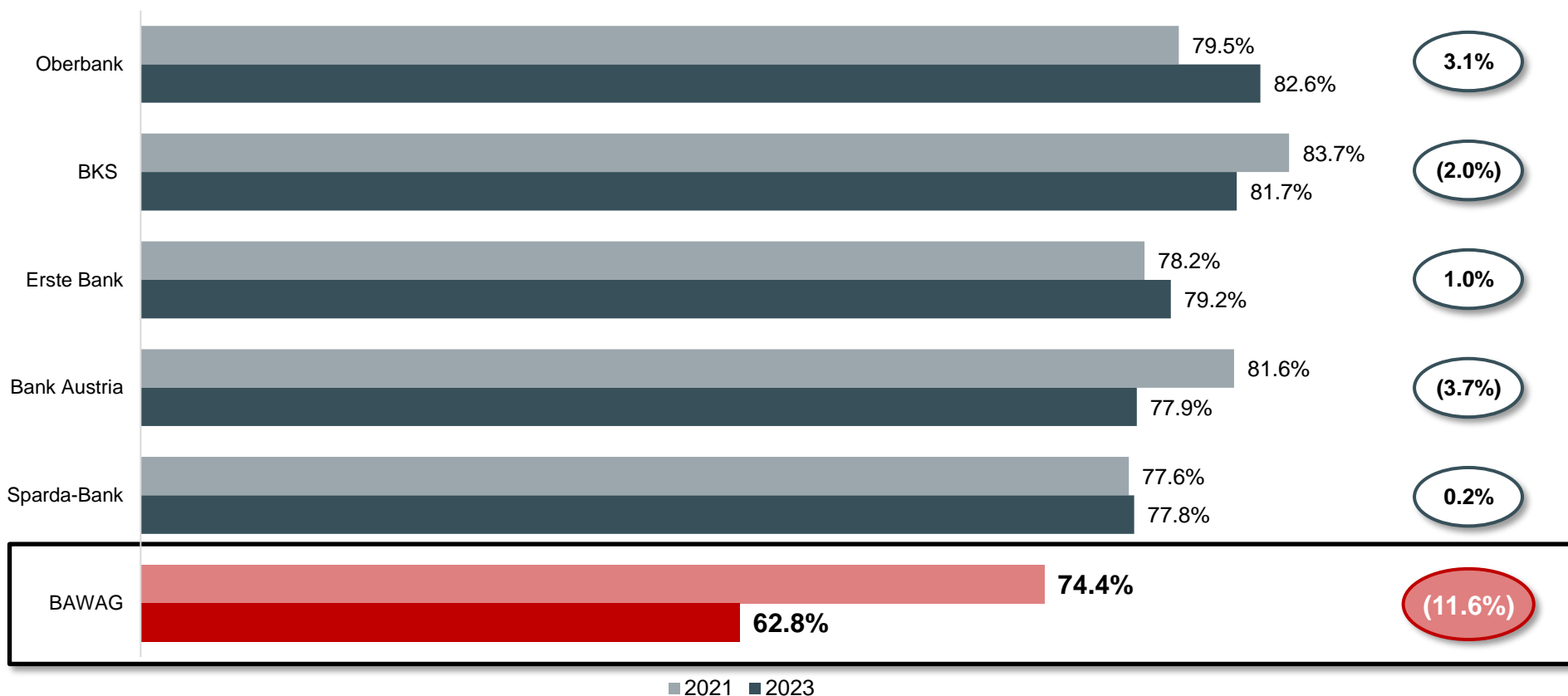
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*Latest data on customer satisfaction confirms the decline of the BAWAG franchise*

Survey from ÖGVS published in "Trend" (28-Jul-2023)

Overall result – investment advice<sup>(1)</sup>

*Delta to previous survey*



Notes: (1) BAWAG came in last in all but one subcategory: advice, service and transparency. In the subcategory "ambience", it came in second to last.

Source: ÖGVS – Gesellschaft für Verbraucherstudien mbH (Data published in Trend)

# Numerous VKI-lawsuits against BAWAG show lack of customer care and rotten BAWAG-culture

## BAWAG's involvement in latest lawsuits with VKI

Decision date	Entity	Topic	Summary	Outcome
Apr-2023	Paylife	<b>Illegal fees for Maestro voucher cards</b>	<ul style="list-style-type: none"> <li>Settlement of provision fee (EUR 2.00 per month) after expiry of the validity of the voucher card</li> <li>Debits up to the total consumption of the credit balance</li> <li>Additional fees charged in case of re-exchange</li> </ul>	<ul style="list-style-type: none"> <li>Supreme court ("OGH") confirmed the unlawfulness of the clauses sued for</li> </ul>
Dec-2021	BAWAG P.S.K.	<b>Inadmissible charging of interest for the deferral period (Covid)</b>	<ul style="list-style-type: none"> <li>Starting point: Statutory provision (Apr-2020) for ten-month deferral of lenders' claims to interest (2.COVID-19-JustizBegleitgesetz)</li> <li>BAWAG informed its borrowers that it would continue to charge the interest to the loan account during the deferral period</li> </ul>	<ul style="list-style-type: none"> <li>The OGH upheld the action of the VKI</li> </ul>
Oct-2020	BAWAG P.S.K.	<b>Dispute over unlawful fees</b>	<ul style="list-style-type: none"> <li>Various charges for credit cards that did not comply with the law</li> <li>Concerning the following fees: Legal case processing EUR 100.00 Issue of a replacement card EUR 8.12 Settlement fee in case of death EUR 150.00 Manipulation fees, charged for cross-border credit card transactions outside the EU or in currencies other than euro</li> </ul>	<ul style="list-style-type: none"> <li>Out-of-court solution for affected consumers</li> </ul>
Jan-2019	BAWAG P.S.K.	<b>Association action because of account conversion and account termination</b>	<ul style="list-style-type: none"> <li>BAWAG informed customers that old account models will be discontinued, and customers will have to switch to new ones</li> <li>No details on benefits at changeover and charges</li> <li>If no changeover takes place, termination was threatened as of 31.01.2017</li> </ul>	<ul style="list-style-type: none"> <li>HG Wien, OLG Wien and OGH fully upheld the VKI's case</li> </ul>

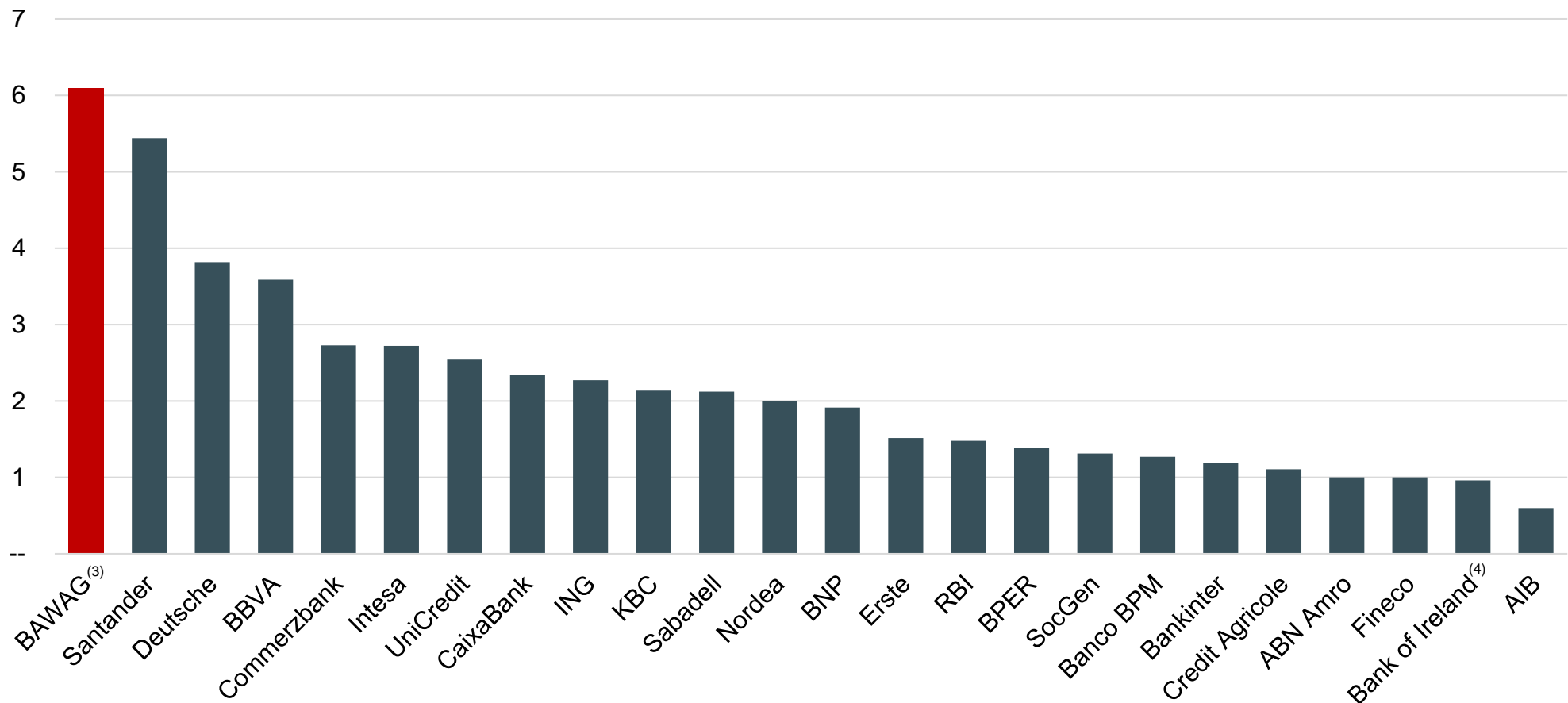
V

**Corporate Governance Is Potentially Last-in-class  
With an Absentee Management Team Home Alone**

- Arguments that the compensation of BAWAG's management is aligned to performance make no sense as the CEO receives the highest fixed compensation across all peers in the Euro Stoxx Banks
  - In relative terms, his fixed compensation as a multiple of profit before tax is 13x as high as the index average
- His compensation relative to BAWAG's non-management staff is also significantly higher than at other banks, leading to frustration of the employee base
- Consequently, BAWAG has lost many key employees in the last two and a half years (many leaving to OLB) – we think that filling these positions will be difficult and expensive
- We have previously pointed out the unprecedented lending to management
  - With the H1 2023 report, it becomes evident that the interest rate on these loans is very low – we estimate a lower rate than the refinancing rate of the Republic of Austria
  - We are of the view that this might be a violation of the Austrian Code of Corporate Governance
- BAWAG's management has been trading its own shares less than 30-days prior to quarterly earnings announcements – this is illegal for most other banks and is another sign of management operating by its own compliance rules

# BAWAG's CEO has the highest fixed salary<sup>(1)</sup> across European banks<sup>(2)</sup>...

CEO compensation – fixed component<sup>(1)</sup> (2022 figures, in EURm)



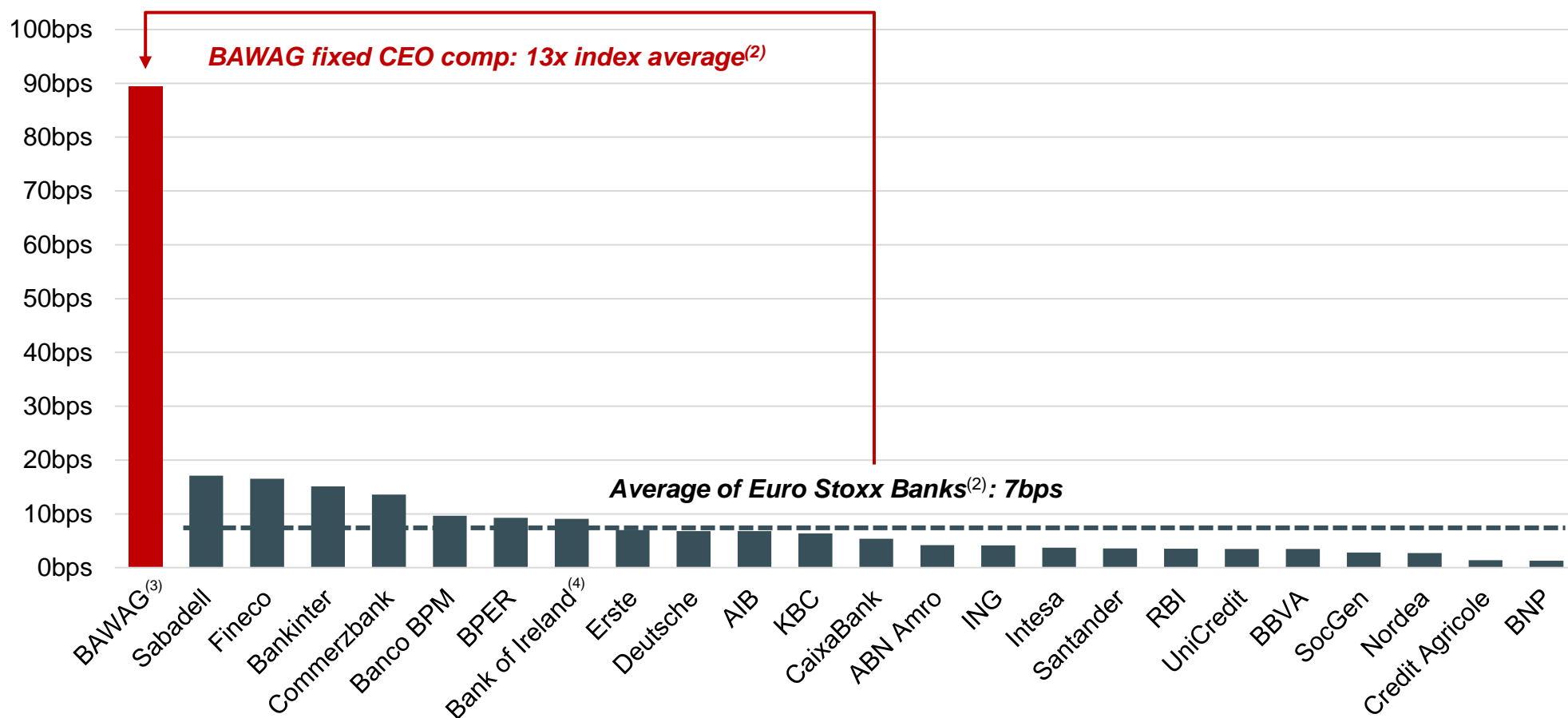
Notes: (1) Includes, where available, base compensation, pension contributions, and other fixed components, i.e. fringe benefits; (2) Refers to Euro Stoxx Banks. RBI included as Austrian reference point; (3) BAWAG figure includes base salary, pension, and insurance contributions; (4) Bank of Ireland Group's CEO fixed compensation refers to 2021 due to CEO change in 2022.

Source: Company filings, Petrus Advisers analysis

# ...which looks even more outrageous compared to profitability

*Argument that salary is aligned to value creation makes no sense given the ridiculous base compensation*

CEO compensation – fixed component<sup>(1)</sup> (2022 figures, bps of profit before tax)

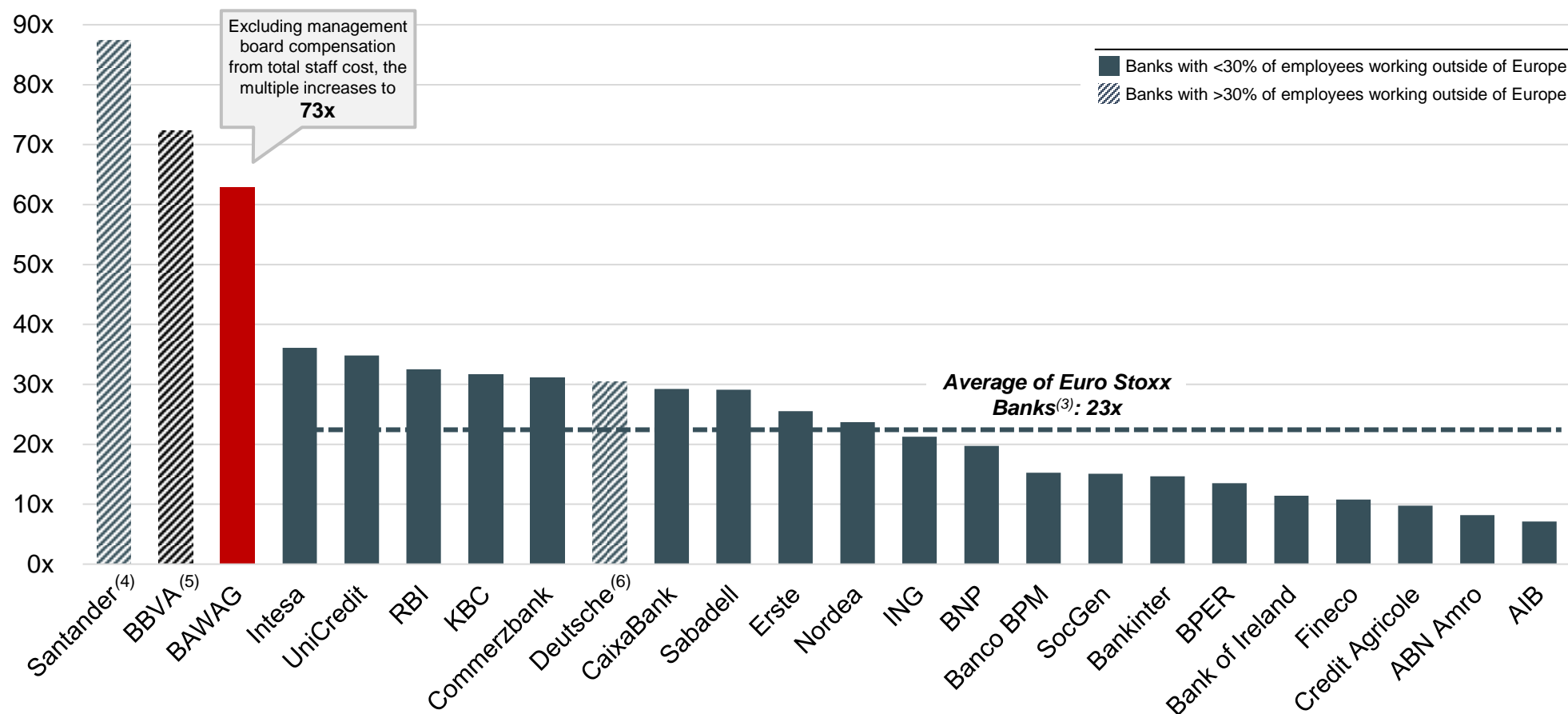


Notes: (1) Includes, where available, base compensation, pension contributions, and other fixed components, i.e. fringe benefits; (2) Refers to Euro Stoxx Banks. RBI included as Austrian reference point; (3) Bawag figure includes base salary, pension, and insurance contributions; (4) Bank of Ireland Group's CEO fixed compensation refers to 2021 due to CEO change in 2022.

Source: Company filings, Petrus Advisers analysis

# BAWAG has the highest CEO-to-staff pay-gap across Euro Stoxx Banks (excl. banks with large offshore operations)

CEO fixed compensation<sup>(1)</sup> as multiple of average employee compensation<sup>(2)</sup> by bank (FY 2022)



Notes: (1) Includes, where available, base compensation, pension contributions, and other fixed components, i.e. fringe benefits; (2) Average employee compensation calculated as the ratio between total staff cost and avg. number of full-time equivalent employees (FTE); (3) Average excludes Santander, BBVA, and Deutsche Bank for lack of comparability, due to having a significant share of workforce located outside of Europe (in lower cost locations e.g. South America and India); (4) 63% of Santander's workforce is located outside of Europe; 48% is located across Central & South America; (5) 77% of BBVA's workforce is located outside of Europe; 58% is located across Central & South America; (6) 38% of Deutsche Bank's workforce is located outside of Europe; 20% is located in India.

Source: Company filings, Petrus Advisers analysis

# The physical absence of BAWAG's management from the headquarters and large pay-gap drive key talent away

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*Replacing talent is costly and takes time as BAWAG is effectively competing with credit funds and large investment banks that can offer better compensation and career development – CIR of 34% is not sustainable*

## Senior departures from BAWAG since CRO departure

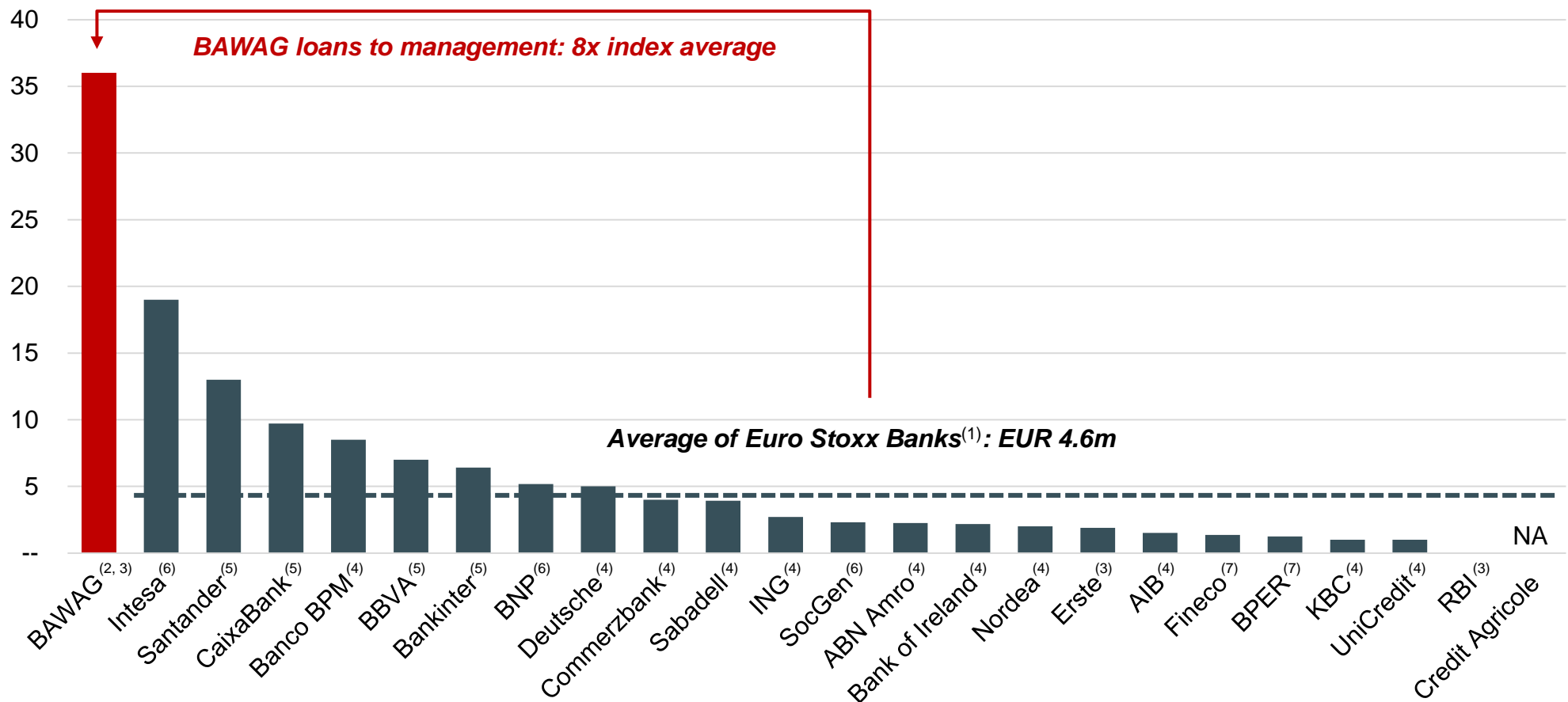
Left to OLB	Name	Leaving date	BAWAG role (per LinkedIn)
	[Employee #1]	Dec-20	Chief Risk Officer
	[Employee #2]	Dec-20	Director Marketing Communications Austria
	[Employee #3]	Apr-21	Head of Germany - Corporate Financings
	[Employee #4]	Sep-21	Director (Origination/Underwriting) - RE/Special Sits
	[Employee #5]	Mar-22	International Corporate & RE Risk Manager
	[Employee #6]	Mar-22	Director Corporate & Real Estate Lending
	[Employee #7]	Jun-22	Head of Product Management
	[Employee #8]	Aug-21	Head of Modelling
	[Employee #9]	Sep-21	Division Head Data Office & Project Governance
	[Employee #10]	Nov-21	Head of International Mortgages
	[Employee #11]	Apr-22	Head of Customers & Digital Channels
	[Employee #12]	May-22	Head of Planning & Analysis
	[Employee #13]	Jul-22	Head of Software Development - Trading Application
	[Employee #14]	Dec-22	Head of Division Online Brokerage
	[Employee #15]	Feb-23	Head of Retail Risk Project & Process Management
	[Employee #16]	Mar-23	Head of Process Excellence & Customer Experience
	[Employee #17]	Jun-23	Leitung Customer Service & Sales Center Outbound

# BAWAG's lending to management is the highest in Europe and totally out of proportion: 8x as high as the average<sup>(1)</sup>

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*In relative terms (% of total loans), BAWAG's loans to management are 30x as high as the average<sup>(1)</sup>*

Loans to management (2022 figures, in EURm)



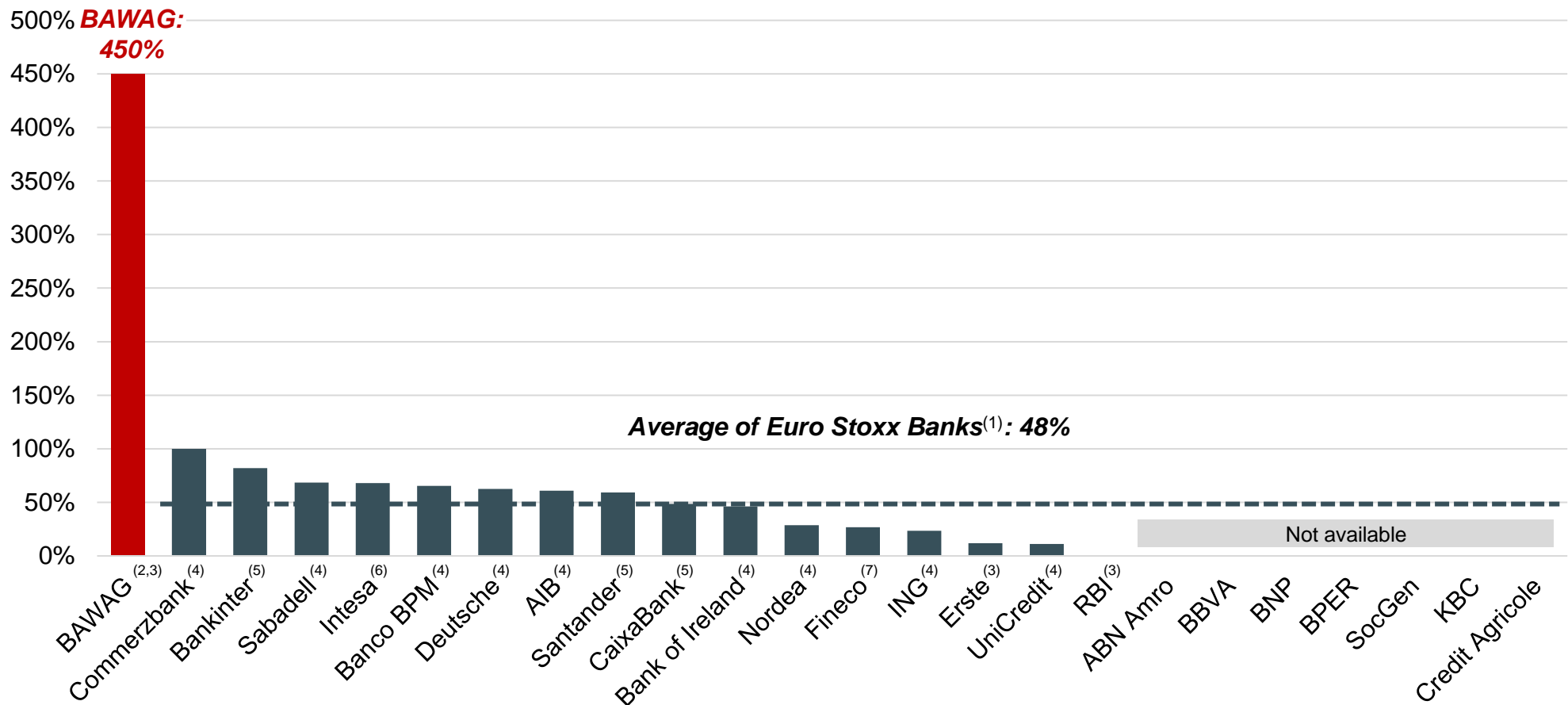
Notes: (1) Reference to Euro Stoxx Banks + RBI; RBI included as Austrian reference point; (2) BAWAG has published loans to management and supervisory board as per 30-Jun-2023 that totalled EUR 35m. For comparability, our benchmarking refers to FY'22 figures; (3) Figure includes loans to management and supervisory board; (4) Figure includes loans to key management personnel; (5) Figure includes loans to directors and senior managers; (6) Figure includes loans to directors, corporate officers, their spouse and dependent children; (7) Figure includes loans to directors, auditors, and executives.

Source: Company filings, Petrus Advisers analysis

# BAWAG's management is the only “net borrower” across all European banks<sup>(1)</sup>

*All European banks<sup>(1)</sup> management teams have more deposits with their banks than loans – except for BAWAG*

Loan-to-deposit ratio for management transactions (2022 figures, in %)



Notes: (1) Reference to Euro Stoxx Banks + RBI; RBI included as Austrian reference point; (2) BAWAG has published loans to management and supervisory board as per 30-Jun-2023 that totalled EUR 35m and deposits that totalled EUR 11m. For comparability, our benchmarking refers to FY'22 figures; (3) Figure includes loans to management and supervisory board; (4) Figure includes loans to key management personnel; (5) Figure includes loans to directors and senior managers; (6) Figure includes loans to directors, corporate officers, their spouse and dependent children; (7) Figure includes loans to directors, auditors, and executives.

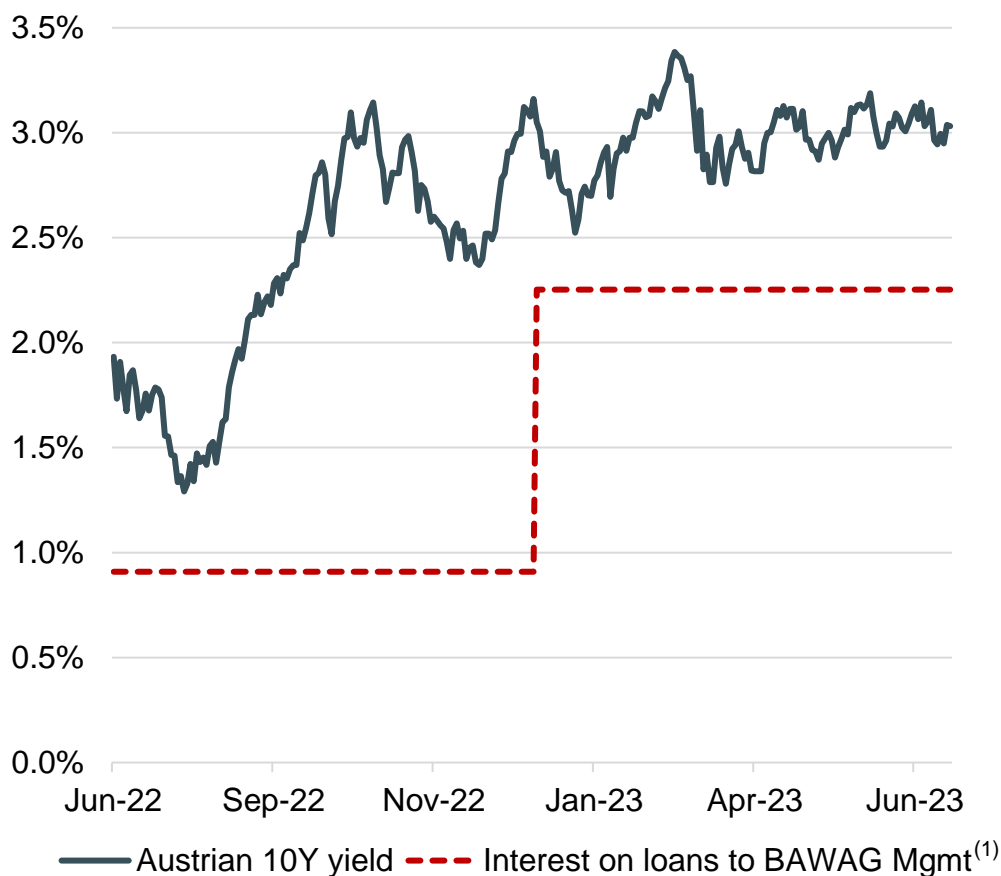
Source: Company filings, Petrus Advisers analysis

# Interest rate on loans to management seems ultra-low – a violation of the Austrian Code of Corporate Governance?

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*It appears that BAWAG's management is borrowing money at lower rates than the Republic of Austria*

## Back-of-the-envelope yield calculation on Management loans



## Extract: Österreichischer Corporate Governance Kodex<sup>(2)</sup>

24. Alle Geschäfte zwischen der Gesellschaft bzw. Konzernunternehmen und Vorstandsmitgliedern sowie ihnen nahestehenden Personen oder Unternehmen müssen den branchenüblichen Standards entsprechen. Derartige Geschäfte und deren Konditionen müssen im Voraus durch den Aufsichtsrat genehmigt werden, ausgenommen Geschäfte des täglichen Lebens.

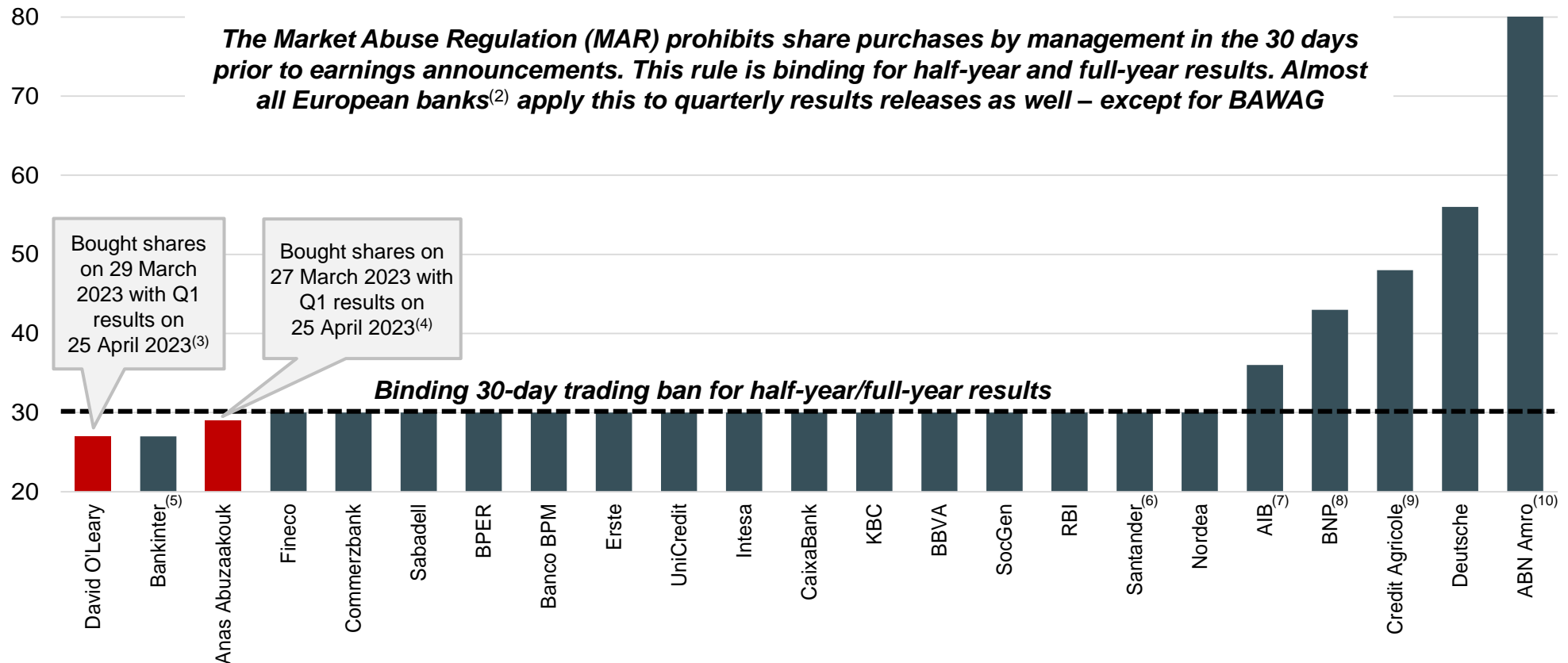
Notes: (1) Based on Petrus Advisers analysis. Calculated as annualised interest income divided by the average loan balance of the half year. Please refer to page 176/354 Annual Report 2022 and page 48/98 H1 Report 2023; (2) <https://www.corporate-governance.at/uploads/u/corgov/files/kodex/corporate-governance-kodex-012023.pdf>.

Source: Company filings, Factset as per 30-Jun-2023, Österreichischer Corporate Governance Kodex (Fassung Jänner 2023)

# Top management trading BAWAG stock by their own compliance rules

**Anas Abuzaakouk and David O’Leary seem to exploit a compliance loophole – apparently with support from the supervisory board – such practices have recently cost other managers their jobs<sup>(1)</sup>**

## Trading restriction before quarterly results announcements (in number of days)



Notes: (1) <https://www.ft.com/content/3c77ec43-98b4-455c-b753-c1621709a8b2>; (2) Reference to Euro Stoxx Banks. Bankinter is the only bank that has applied a 15-day trading ban in 2022. ING has an internal policy but does not disclose any details about it. Bank of Ireland does not have an internal policy, but management does not trade the bank's stock; (3) <https://www.bawagroup.com/resource/blob/46282/013cf5a863f037e1a949d87b87d370be/2023-03-29-presetext-o-leary-en-data.pdf>; (4) <https://www.bawagroup.com/resource/blob/46214/e2d454c902847a76ec87e3c406011c23/2023-03-27-abuzaakouk-en-data.pdf>; (5) Since 2022, the closest trade to the publication of an annual or quarterly report was on 24 March 2023, 27 days before the Q1'23 results; (6) At Santander, trading ban starts on the date that is one month prior to the announcement of the quarterly or annual results until the date following that on which such results are published; (7) At AIB, trading only allowed in the 21 days following publication of any quarterly or annual report; (8) At BNP, trading only allowed in the 6 weeks following publication of any quarterly or annual report; (9) At Credit Agricole, trading only allowed in the 6 weeks following publication of any quarterly or annual report; (10) At ABN Amro, trading only allowed in the 10 days following publication of any quarterly or annual report.

Source: Company filings, Petrus Advisers analysis

## Appendix

# Review of BAWAG's "response" to our criticism (1/2)

	Red flag	Initial assessment	BAWAG's "response"	Petrus' clarification
1	Instable funding	<ul style="list-style-type: none"> <li>BAWAG's loss of retail deposits has accelerated since end of 2021 (7% nominal decline) – BAWAG has increased rates on new deposit inflows to counteract outflows (2<sup>nd</sup> highest rate in Austria)</li> <li>BAWAG's deposit market share has declined by 10% since 2018</li> </ul>	<ul style="list-style-type: none"> <li>"Customer deposits increased by 1% in the second quarter 2023, while customer funding (including covered bonds) is up 6%"</li> <li>"More than 90% of our deposit base is from Austria"</li> </ul>	<ul style="list-style-type: none"> <li>The announced stabilisation of <b>retail deposits</b> in Q2 will be a temporary trend in our view – <b>we expect outflows in H2</b></li> <li>We think <b>deposit betas will rise significantly</b> in the mid-term</li> <li><b>Customer dissatisfaction</b> will become more problematic mid-term</li> <li>Consensus is underestimating the potential loss of the public sector deposits</li> </ul>
2	Weak credit quality and underwriting	<ul style="list-style-type: none"> <li>BAWAG has dramatically increased its CRE exposure in the US and has exposure to other countries far away from its home market (e.g. Nordics and Ireland) without relevant expertise</li> <li>We understand that most of the new lending is coming from acquisitions of loan books and structured products as organic credit underwriting has degraded</li> </ul>	<ul style="list-style-type: none"> <li>"Customer loans decreased by 2% in the second quarter due to lower volumes in commercial real estate and housing loans, which is a reflection of the current market environment"</li> <li>"Approximately 80% of our customer loans is secured or public sector lending"</li> </ul>	<ul style="list-style-type: none"> <li>Short-term cost of risk and NPL ratios leave us unimpressed</li> <li>BAWAG has <b>increased consumer finance and CRE exposure</b> while decreasing risk weights</li> <li>BAWAG's IRB model assumptions appear overly optimistic and aligning them with the index would cost more than <b>EUR 1bn in additional risk weighted assets<sup>(1)</sup></b></li> </ul>
3	Angry client base	<ul style="list-style-type: none"> <li>Numerous customer complaints are the result of underinvestment in the franchise and in customer support</li> <li>Lack of product offering is driving customer attrition</li> </ul>	<ul style="list-style-type: none"> <li>"Our goal is to deliver simple, transparent, and affordable financial products and services that our customers need"</li> </ul>	<ul style="list-style-type: none"> <li>BAWAG has <b>lost c. 25% of its client base</b> since IPO due to underinvestment in relevant products and customer support<sup>(2)</sup></li> <li>The <b>loss of clients is an ongoing trend<sup>(2)</sup></b></li> <li>AK reiterated that <b>BAWAG is complaint frontrunner in banking services<sup>(3)</sup></b></li> </ul>

Notes: (1) Please refer to page 19/20 of the presentation; (2) Petrus Advisers estimate based on public disclosure from BAWAG and expert calls; (3) <https://twitter.com/Arbeiterkammer/status/1676169440067559424>

Source: Company filings, Österreichische Nationalbank, UBS Research

# Review of BAWAG's "response" to our criticism (2/2)

	Red flag	Initial assessment	BAWAG's "response"	Petrus' clarification
4	Unethical compensation	<ul style="list-style-type: none"> <li>Despite not creating any real value, management has paid itself more than EUR 200m since IPO</li> <li>BAWAG's CEO gets 12x as much compensation as European peers relative to profitability</li> </ul>	<ul style="list-style-type: none"> <li>No response from BAWAG</li> </ul>	<ul style="list-style-type: none"> <li>BAWAG has <b>not generated value for shareholders since its IPO</b> in real terms (TSR of 3.5% vs. inflation of 4.1%)<sup>(1)</sup></li> <li>Compensation <b>should be aligned to TSR</b></li> <li><b>BAWAG's fixed compensation is unprecedented and demoralising for its non-management staff</b></li> </ul>
5	Employee dissatisfaction	<ul style="list-style-type: none"> <li>Glassdoor reviews confirm dissatisfaction of BAWAG staff</li> <li>Employees are openly discontent about customer dissatisfaction, weak career opportunities, large compensation gap to senior management and management running the business from the US</li> </ul>	<ul style="list-style-type: none"> <li>No response from BAWAG</li> </ul>	<ul style="list-style-type: none"> <li>Speaks for itself</li> <li>BAWAG has recently <b>lost numerous key employees to OLB</b> – we think filling these positions will be difficult and costly</li> <li>BAWAG has <b>failed to publish any data on employee satisfaction</b></li> </ul>
6	Escalating loans to related parties	<ul style="list-style-type: none"> <li>BAWAG's management has EUR 36m of loans outstanding with its own bank per 2022 (tripled in 2022)</li> <li>Our questions at the AGM around terms, conditions and usage were left unanswered</li> </ul>	<ul style="list-style-type: none"> <li>Autonomous Research: "<i>BAWAG encourages its staff to bank with it, according to management - conducted on an arm's length basis and verified by the tax advisor</i>"</li> <li>Updated figures for H1'23 provided on the website: EUR 35m loans to management</li> </ul>	<ul style="list-style-type: none"> <li>BAWAG gives <b>more loans to its management than any peers</b><sup>(2)</sup></li> <li>BAWAG's management is the <b>only "net borrower" from its bank</b><sup>(3)</sup></li> <li>It appears that BAWAG's management is borrowing money at <b>lower rates than the Republic of Austria and might violate the Austrian Corporate Governance Code</b></li> </ul>
7	Corporate governance issues	<ul style="list-style-type: none"> <li>BAWAG's corporate governance is deplorable, and its supervisory board of management cronies and friends lacks quality and independence</li> <li>BAWAG's Chief Risk Officer ("CRO") has no relevant prior experience or visible qualifications</li> </ul>	<ul style="list-style-type: none"> <li>"<i>Maintaining a top-flight governance structure forms an integral part of BAWAG's strategy</i>"</li> </ul>	<ul style="list-style-type: none"> <li>The supervisory board encouraging <b>management to take loans from BAWAG is not in the interest of shareholders</b></li> <li>BAWAG's management has been buying its own stock &lt;30 days prior to earnings announcement – a <b>compliance breach</b> at almost all other European banks<sup>(2)</sup></li> </ul>

Notes: (1) Annualised metrics. Assumes no reinvestment of dividends (pre-tax). Inflation refers to Austrian national consumer price index; (2) Reference to Euro Stoxx Banks; (3) Refers to loan-to-deposit ratio of >100%.

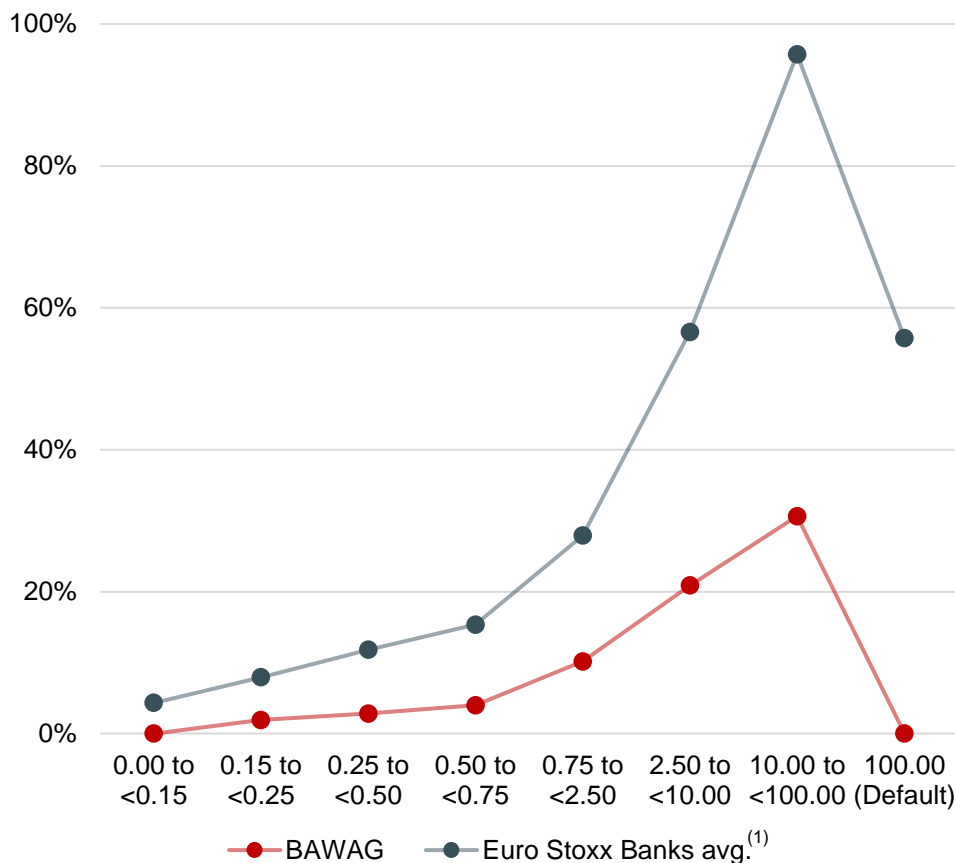
Source: Company filings, Österreichische Nationalbank, UBS Research, sparzinsen.at, Factset as per 13-Sep-2023

# Back-up on RWA management

**IRB models allow banks more flexibility when determining risk weights – BAWAG seems to push this flexibility to the limit (for its retail exposure<sup>(2)</sup>)**

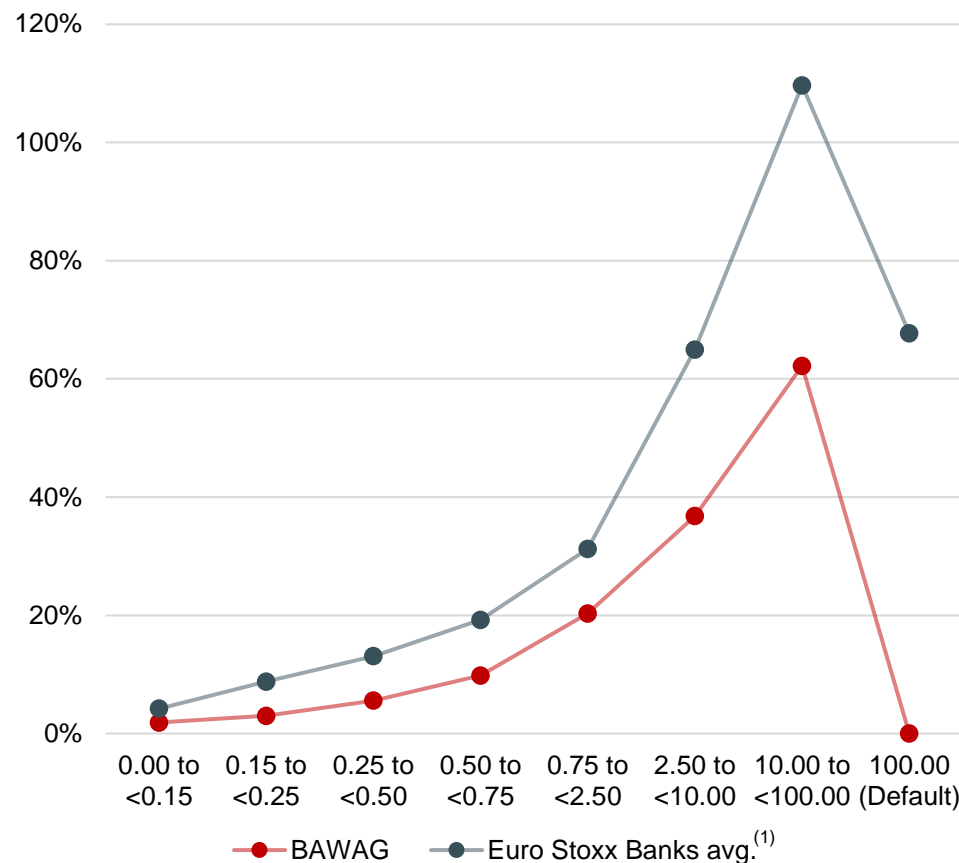
## Risk weights (Retail / SME / secured by property)<sup>(3,4)</sup>

For different PD (probability of default) categories



## Risk weights (Retail / non-SME / secured by property)<sup>(3)</sup>

For different PD (probability of default) categories



Notes: (1) Defined as Euro Stoxx Banks (excl. Fineco but incl. RBI); (2) In the exposure class "retail exposures" (Article 147 (2) point (d) CRR), the parameter PD as well as LGD and conversion factors are based on the Group's own estimates. We understand that Dutch mortgages come at a lower risk weight, but that cannot explain the delta to peers. BAWAG's CRM is in the middle of the index so does not explain the significantly lower risk weights; (3) Refers to CR6-B (IRB approach – Credit risk exposures by exposure class and PD range); (4) Excludes Bank of Ireland and AIB due to unavailability of data.

Source: Company filings (Pillar 3 reports), Petrus Advisers analysis

## Extract from BAWAG's disclosure report (2022)

### Portfolios in the IRB approach

Approval to use the IRB approach applies to the following credit institutions in the Bank Group:

- BAWAG P.S.K. AG

For the exposure class "exposures to corporates" (Article 147 (2) point (c) CRR), the approaches specified by the supervisory authority are used in the scope of the IRB approach for the risk parameter LGD and conversion factors. The risk weights pursuant to Article 147 (2) point (c) CRR apply for exposures from specialized lending.

In the exposure class "retail exposures" (Article 147 (2) point (d) CRR), the parameter PD as well as LGD and conversion factors are based on the Group's own estimates.

Exposures in the exposure class "participations" (Article 147 (2) point (e) CRR) are calculated based on the simple risk weight approach pursuant to Article 155 (2) CRR and using grandfathering in accordance with Article 495 (1) CRR.

### Loss given default

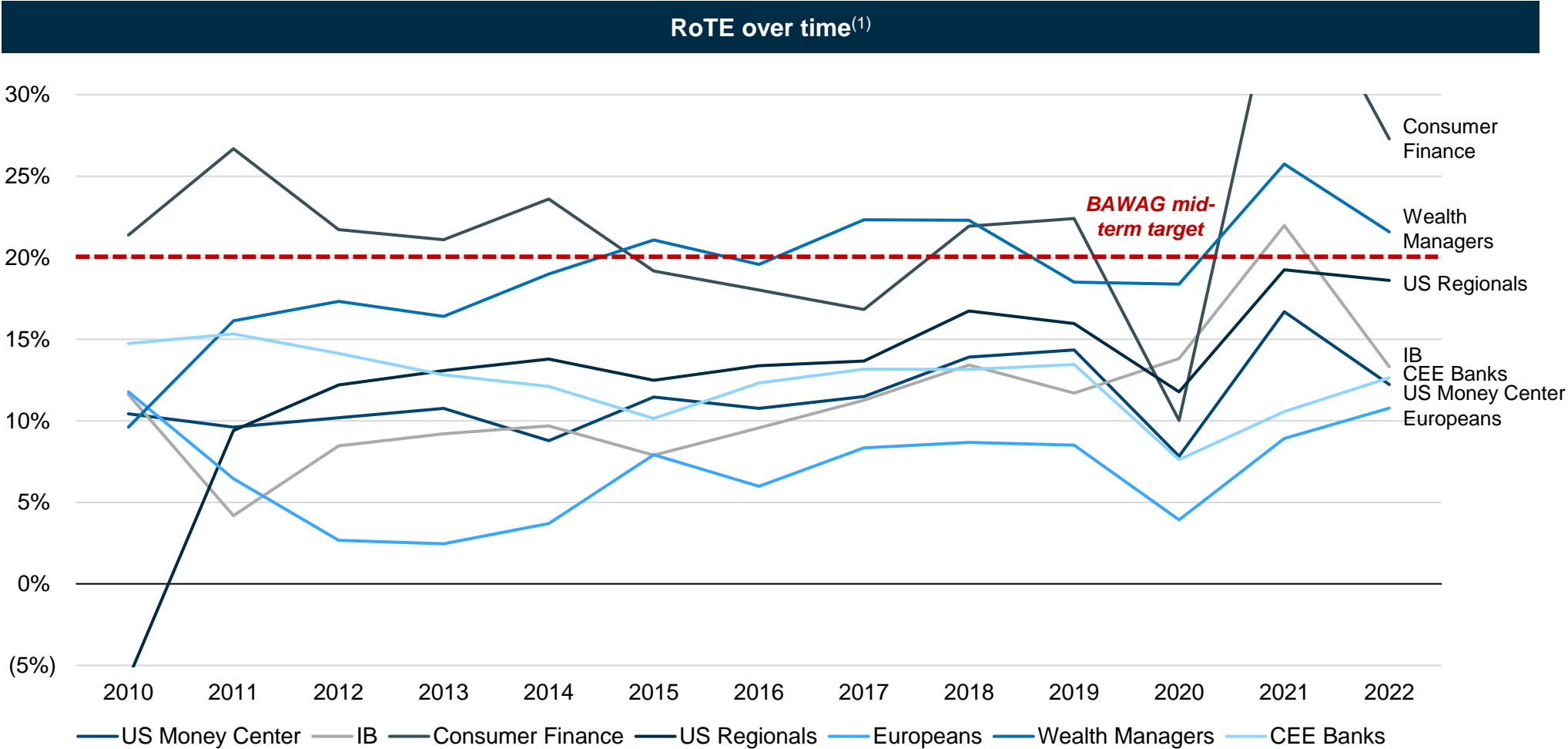
Loss given default (LGD) is defined as economic loss as a percentage of the outstanding exposure at default (EAD). The economic loss comprises the outstanding EAD less recoveries from the realization of collateral and other non-collateral proceeds.

Internal Bank estimates are only carried out for the retail portfolio (Private Individuals and Small Business). The LGD estimate is based on a two-step process. First, the collateral return rate (SEQ) is determined per collateral pool. Then the outstanding exposure less collateral return (EAD\*) is determined. For the non-collateralized portion of the exposure, a non-collateralized LGD is estimated using a CHAID-class decision-tree process applying criteria with a high degree of discriminatory power. In a final step, the two components SEQ and non-collateralized LGD are then merged to arrive at the final estimated LGD. The generated values of the individual pools are calibrated at a conservative level using an upward surcharge based on the standard deviation and the number of data sets and taking into account any downturn effects that may be observed. All data available since 2008 were used for model development as long as the data were of sufficient quality and were sufficiently representative. The exposure weighted average LGD for all retail exposures secured by residential or commercial property is scaled such that it is not below 10% or 15%, respectively. Differences between the observed and actual loss rates are driven by the fact that the LGD is based on the long-term historical information. Recurring calibrations or model adjustments are aimed at rectifying the gap.

The annual validation of the estimated LGD comprises analyses of the deviation between observed values and estimated values, plausibility checks and descriptive statistics and tests for the individual LGD pools regarding stability and downturn effects.

# The only banks delivering more than 20% RoTE are consumer finance specialists and wealth managers

We view BAWAG's ambition to deliver >20% RoTE through the cycle as unrealistic



Notes: (1) Calculated as EPS / avg. TBV per share. US Money Center includes BofA, JPM, Wells Fargo and Citi; IB includes GS and MS; Consumer Finance includes Capital One, Discover, and Synchrony; US Regionals includes Truist, First Republic, Western Alliance, Zions, PacWest; Europeans includes Euro Stoxx Banks (excl. Fineco); Wealth Managers includes Julius Bär, EFG, Rathbones, St James's, VLK and Quilter; CEE Banks includes Moneta, Komerční, mBank, Pekao, PKO, ING Bank Śląski and OTP.  
Source: Company filings, Factset as per 13-Sep-2023

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