

EUROPEAN BANKING AUTHORITY (“EBA”)
C/o Mr. José Manuel Campa, Chairperson of the EBA
Floor 25 Tour Europlaza
20 avenue André Prothin CS 30154
92927 Paris La Défense, France

Cc: Mr. François-Louis Michaud (Executive Director of the EBA)

London, [30] June 2023

Dear Mr Campa,

Petrus Advisers stands for highest ESG standards as only fair and sustainable business practices can be profitable in the long-term. Following the failure of Silicon Valley Bank and Signature Bank as well as the last-minute rescues of Credit Suisse and First Republic, market participants have been reluctant to invest in European banks (SX7E trading at a ~40% discount vs. through the cycle average valuation¹). We remain convinced that European banks are well positioned to weather choppy weather given strong capitalisation as well as good liquidity positions and funding profiles in comparison to previous downturns.

However, not all banks in Europe are progressing and creating value for shareholders and the community. Our screening of risk-factors that lead to the destabilisation of some US banks this year resulted in concerning findings for BAWAG Group AG (“**BAWAG**”). We are shocked to what extent BAWAG’s management has been enriching itself on the back of all stakeholders, the community and corporate governance ethics.

BAWAG’s leadership is destroying value for shareholders and the Austrian community and ignores the most basic rules of corporate governance:

(1) Doubtful loan book quality

Banks play an important role in their societies by providing credit to retail and corporate customers. BAWAG however has essentially phased out its credit origination capabilities through drastic cost cutting programmes. While organic asset growth has been negative since 2020, BAWAG has dramatically increased its CRE exposure in the US (from EUR 743m per Dec-2020 to EUR 2,268m per Mar-2023) and other countries far away from its home market (e.g. Nordics and Ireland). We understand that most of the new lending is coming from acquisitions of loan books and structured products. This has very little to do with the raison d’être of banks and should be done by credit funds rather than regulated retail banks.

(2) Deposit flight

Despite strong inflation over the last quarters, BAWAG has lost 7% of its nominal retail deposit base since year-end 2021. The significant market share loss is not a surprise to us given the degrading product offering, diminishing customer service increasing customer complaints² and shrinkage of geographical footprint. BAWAG even terminated various “unprofitable” customers, many of which were then totally cut off from accessing the payments system leading to consumer protection organisations voicing concern³.

¹ Based on 20Y average NTM P/E multiple for the SX7E. Factset as per 26-Jun-2023.

² BAWAG has a worse Trustpilot score than Erste Bank, Bank Austria and bank99 with 95% of people giving BAWAG the lowest possible rating.

³ <https://www.arbeiterkammer.at/beratung/konsument/AchtungFalle/>

Hilfe_es_klappt_nicht_mit_dem_Service_der_Bank.html#heading_Viele_Beschwerden_von_BAWAG_Kund_innen

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(3) Corporate governance issues

Despite not generating any real value for shareholders since IPO, BAWAG's management has paid itself more than EUR 200m since its IPO. The latest EBA high earners report showed that all five Austrian bankers earning more than EUR 6m in 2021 were BAWAG managers – despite BAWAG being significantly smaller and less profitable than RBI and Erste Group. BAWAG's CEO is one of the highest paid executives in Europe and earns more than entire management teams of competing European banks. His compensation is 12x as high as the other European banks in the SX7E when compared to profitability⁴.

2/6 Supervisory Board members (incl. the Chairman and the Chairwoman of the ESG committee) are previous BAWAG employees. We are very concerned about conflicts of interest and independence of the Supervisory Board that needs to sign off the Management's compensation bonanza.

(4) Excesses in lending to related parties

BAWAG's management took EUR 26m of loans from BAWAG in 2022⁵. This amount was apparently split across three loans bringing the total lending to management to EUR 36m per year-end 2022. The company did not want to answer our questions about the terms, conditions and usage of these loans at the 2023 AGM. After the horrifying experience at Silicon Valley Bank – where related-party lending also tripled last year⁶ – we demand clear transparency frameworks and independent assessments of the adequacy of related-party lending for European banks and especially BAWAG.

(5) CRO lacks relevant qualifications

Recent obvious risk management mistakes across regional US banks have put more spotlight on the CRO-role at banks. Unfortunately, BAWAG's CRO has literally no risk management experience. While his CV on BAWAG's website talks about risk management responsibility in a role between 2009-2011, his LinkedIn profile does not mention risk management at all. Apart from the fact that he does not even work from Austria he is a former private equity colleague of BAWAG's CEO⁷. How is it possible that a person with this background is allowed to take on the CRO-role of a EUR 50bn+ balance sheet bank? We very much question his qualifications for the role.

We are strong believers in self-regulation of markets and active shareholder engagement. However, BAWAG strikes us a case that is too far away from anything sustainable, society-enhancing and fair. The fact that this is being tolerated by you and encouraged through the approval of large share buybacks is very questionable to us. European banks are on the right path after a decade of underperformance. However, the sector lacks trust from investors that can only be reinstated if regulators are providing a level playing field with all teams playing by the rules.

Sincerely,



Klaus Umek
Managing Partner



Till Hufnagel
Partner

⁴ CEO compensation / profit before tax (2022 figures, in bps). BAWAG's compensation does not include LTIP payments.

⁵ Page 172 and 176 BAWAG annual report 2022.

⁶ <https://www.bloomberg.com/news/articles/2023-03-21/svb-s-loans-to-insiders-tripled-to-219-million-before-it-failed>

⁷ The two worked together at General Electric and Cerberus between 1999 and 2012.