

Credit Rating Announcement

04 March 2025

Scope affirms Bausparkasse Wüstenrot AG's Austrian covered bond rating at AAA, Stable Outlook

The rating on Bausparkasse Wüstenrot AG's (Wüstenrot) Austrian mortgage Pfandbriefe reflects the issuer's credit strength enhanced by seven notches from governance and cover pool support. One notch buffer against an issuer downgrade.

Rating action

Scope Ratings GmbH (Scope) has affirmed the AAA rating on the Austrian mortgage covered bonds (Pfandbriefe) issued by Wüstenrot. The Outlook is Stable.

Key rating drivers

Covered bond rating anchor: not disclosed. Scope maintains and monitors a private issuer rating on Bausparkasse Wüstenrot AG. The issuer rating is the starting point of the covered bond rating. It reflects Wüstenrot's low-risk business profile, moderate but stable profitability and adequate capitalisation.

Governance support (plus five notches). This rating uplift reflects the high likelihood of covered bonds being maintained as a going concern in the event of regulatory action in the issuer as well as a smooth transition from the first (issuer) to the second recourse (cover pool) if needed. It consists of two notches from Scope's legal framework and structural support assessment and three notches from our resolution regime and systemic importance assessment.

Scope's legal framework and structural support analysis for Wüstenrot's Austrian mortgage covered bonds considers: 1) the cover pool's valid segregation from a potential insolvency estate of Wüstenrot; 2) the very high likelihood of bond payments continuing after a moratorium or insolvency; 3) strong legal asset eligibility and risk management principles; 4) that enhancements to the covered bond programme remain available after a moratorium or insolvency of the issuer; and 5) the strong regulatory oversight specifically for Austrian covered bonds. (ESG factor)

The resolution regime and systemic importance assessment considers: 1) the existence and clarity of statutory provisions that allow to maintain an issuer and its covered bonds as a going concern upon a regulatory intervention; 2) the strength of such statutory provisions protecting covered bonds against regulatory actions or bail-in; 3) the moderate systemic importance of Wüstenrot in Austria and the very high relevance of Austrian covered bonds; and 4) Austria's strong proactive stakeholder community. (ESG factor)

Cover pool support (plus up to three notches). This rating uplift reflects the impact of the second

recourse. It considers the programs cover pool complexity (CPC) risk category of 'Low'-risk which translate into an additional cover pool supported uplift of up to three additional uplift notches. (ESG factor)

An overcollateralisation (OC) of 6.0% is needed to support the current AAA rating.

This OC reflects:

- **Credit risk – low-risk granular domestic mortgage loans.** The covered bonds are covered by a granular portfolio of domestic residential mortgage. Concentration is low with the top 10% accounting for only 0.33% and the securing properties being well spread in Austrian. The cover assets benefit from a moderately low loan-to-value (eligible loan to lending value) of 51%. The loans seasoning stands at 6.2 years with a remaining term of 25.7 years, on average. Scope has calculated a weighted average annualised default rate of 0.50% for the mortgage loans. The coefficient of variation is 50%. The stressed recovery rate is 82%.
- **Market risk – interest and maturity mismatches prevail.** Market risks are driven by maturity and interest rate mismatches. The Scope calculated weighted average life (WAL) of cover assets of 14.1 years compares to 5.8 years of the liabilities. The bonds do not benefit from any optional maturity extension clause. However, available substitute assets could soften maturity mismatches in case of a recourse to the cover pool. Interest rate mismatches are moderate and not hedged. 97.2% of fixed rate covered bonds compare to 82.6% of fixed rate mortgage loans. Fixed rate mortgage loans are not fixed for life but typically reset after 10-15 years. 74% of the fixed mortgage loans benefit from rate caps after reset. The covered bonds are not exposed to FX risks as all assets and bonds are denominated in EUR. The programme is most exposed to lower interest rates in combination with low prepayments. This will hit the program's excess spread over time when existing mortgage loans reset at lower rates.

One or more key drivers of the credit rating action are considered an ESG factor.

Outlook and rating sensitivities

The **Stable Outlook** on the covered bonds reflects Scope's view on the stable credit performance of the issuer, and that governance support or cover pool support factors will not materially change.

Upside scenarios are not applicable as the ratings are the highest achievable.

The **downside scenarios** for the ratings and Outlooks are (individually or collectively):

- An issuer rating downgrade by more than one notch
- A reduction in the governance support uplift by two notches or more
- A deterioration in Scope's CPC assessment that could reduce the potential credit support from the cover pool.
- Available or committed OC below rating-supporting level

Environmental, social and governance (ESG) factors

Governance is a key rating driver. For more detail, please refer to 'governance support' and 'cover pool

support' (CPC assessment) under the 'key rating drivers' section above.

Quantitative analysis and assumptions

For its quantitative analysis Scope applied assumptions as laid down in the covered bond methodology.

Stress testing

No stress testing was performed.

Cash flow analysis

The assessment of potential cover pool support uplift is based on a cash flow analysis using Scope Ratings' covered bond model (Covered Bonds Expected Loss Model version 1.2). The model applies Credit Rating distance-dependent stresses to scheduled cash flows to simulate the impact of increasing credit and market risks. The outcome of the analysis is an expected loss rate and an expected weighted average life for the instruments based on the generated cash flows.

Methodology

The methodology used for this Credit Rating and Outlook, (Covered Bond Rating Methodology, 26 July 2024), is available on scoperatings.com/governance-and-policies/rating-governance/methodologies.

The model used for this Credit Rating and Outlook is (Covered Bonds Expected Loss Model version 1.2), available in Scope Ratings' list of models, published under scoperatings.com/governance-and-policies/rating-governance/methodologies.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on scoperatings.com/governance-and-policies/rating-governance/methodologies.

The Outlook indicates the most likely direction of the Credit Rating if the Credit Rating were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Rating: public domain, the Rated Entity and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Rating originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Rating and Outlook and the principal grounds on which the Credit Rating and Outlook are based. Following that review, the Credit Rating and Outlook were not amended before being issued.

Regulatory disclosures

The Credit Rating and Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Rating and Outlook are UK-endorsed.

Lead analyst: Mathias Pleißner, Executive Director

Person responsible for approval of the Credit Rating: Karlo Fuchs, Managing Director

The Credit Rating/Outlook was first released by Scope Ratings on 6 April 2017. The Credit Rating/Outlook was last updated on 25 March 2024.

Potential conflicts

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