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Transaction Update: Bausparkasse Wuestenrot AG (Covered Bonds)

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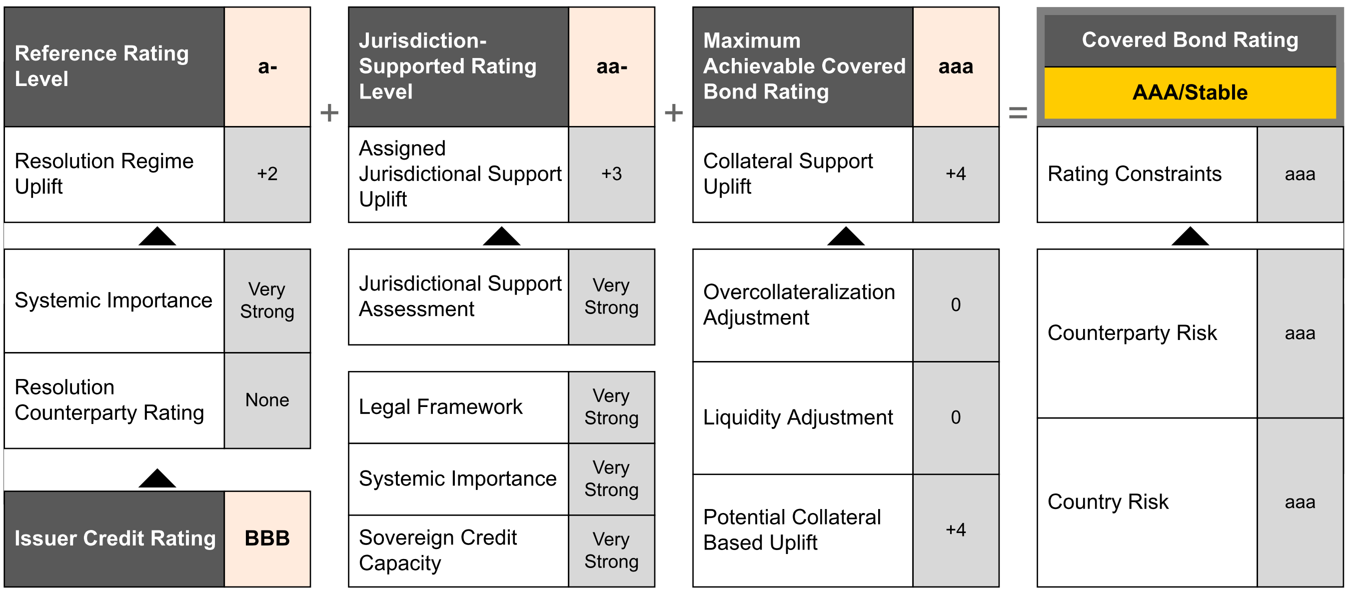
Ratings Detail



Major Rating Factors

Strengths

- Very granular portfolio of Austrian residential mortgages diversified across regions.
- The covered bonds benefit from a public commitment to maintain a level of overcollateralization commensurate with a 'AAA' rating.
- The cover pool does not contain any loans that are more than 60 days in arrears.

Weakness

- The cover pool includes about 26% of second- and lower-ranking loans as reflected in our credit analysis. In this respect, the corresponding prior-ranking loans often comprise subsidized-housing loans.

Outlook: Stable

The stable outlook on the covered bond ratings reflects one unused notch of collateral-support uplift that would protect the ratings on the covered bonds if we were to lower the long-term issuer credit rating (ICR) on Bausparkasse Wuestenrot AG (BWAG) by one notch, all else being equal.

Rationale

We are publishing this transaction update as part of our periodic review of BWAG's mortgage covered bond program.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and our "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015. Accordingly, we performed a legal and regulatory review, an operational risk review, a resolution regime analysis, a jurisdictional support analysis, a collateral support analysis, and a counterparty and sovereign risk analysis.

BWAG's currently outstanding mortgage covered bonds were issued under the Austrian Pfandbriefgesetz (Mortgage Bond Act); Gesetz vom 21. Dezember 1927 über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten. Austria's new covered bond law ("Pfandbriefgesetz") which implements the EU's Covered Bonds Directive was published on Dec. 10, 2021 and entered into force on July 8, 2022. It applies to all covered bonds issued after July 7, 2022. BWAG updated its debt issuance program to reflect the amended legislation.

We consider that the Austrian legal and regulatory framework isolates the cover pool assets from the issuer's insolvency estate for the benefit of the covered bondholders. The protection of the cover pool assets and the continued management of the cover pool allows us to rate the covered bonds above the long-term ICR on the issuer..

Based on our operational risk analysis, which covered a review of BWAG's lending process, collection procedures, and default management procedures, as well as cover pool management and administration, we believe that the ratings on the covered bonds are not constrained by operational risk.

Under our resolution regime analysis, we determined the covered bonds' reference rating level (RRL) as 'a-'. This reflects the exclusion of covered bonds from bail-in-able debt, and our view of a very strong systemic importance of covered bonds in Austria.

Under our jurisdictional support analysis, we determined the covered bonds' jurisdiction-supported rating level (JRL) as 'aa-'. This uplift reflects our very strong jurisdictional support assessment for mortgage covered bonds in Austria.

Based on our collateral support analysis using loan-by-loan data and asset and liability cash flow projections as of Sept. 30, 2022, we have assigned three notches of uplift above the JRL. This reflects the fact that the available overcollateralization as of Sept. 30, 2022, of 29.07% exceeds the target credit enhancement of 18.73% commensurate with a potential four-notch uplift above the JRL. We did not reduce these four notches, owing to the issuer's commitment to maintain overcollateralization at a level commensurate with a 'AAA' rating. In addition, we did not apply a reduction for the lack of 180 days of liquid assets when we assign a covered bond rating that exceeds the foreign currency rating on the covered bond issuer's sovereign of domicile. This is because our structured finance sovereign risk criteria already limit the number of notches of uplift above the long-term sovereign rating if refinancing risk is not addressed. Consequently, the achieved collateral support uplift is four notches above the JRL, of which three are used to achieve a 'AAA' rating. Therefore, the covered bonds have one unused notch of collateral support, which would protect their ratings in the event of an issuer downgrade by up to one notch.

There are no rating constraints to the 'AAA' rating relating to legal, counterparty, or sovereign risks.

We have based our analysis on the criteria articles referenced in the "Related Criteria" section.

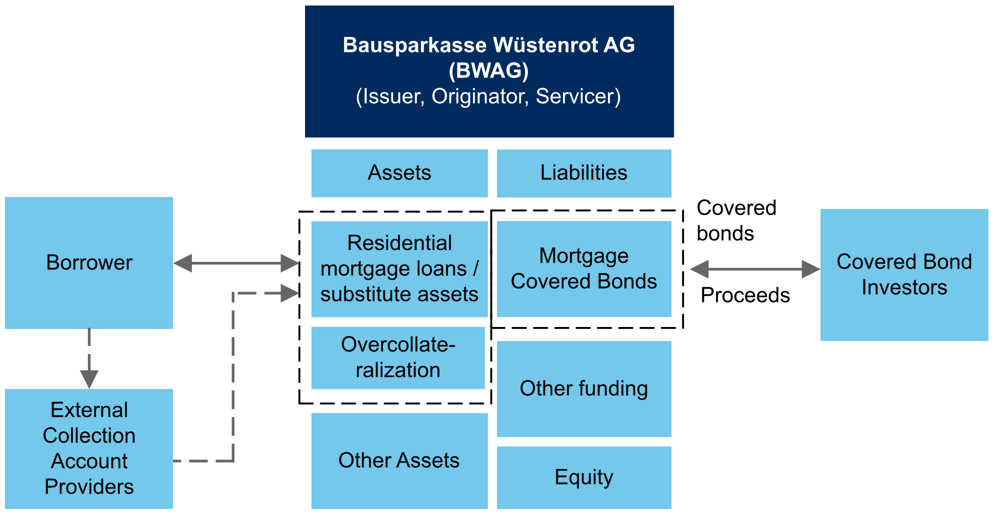
Program Description

Table 1

Program Overview As Of Sept. 30, 2022	
Jurisdiction	Austria
Covered bond type	Legislation-enabled (Austrian Pfandbriefgesetz)
Cover pool assets	Residential mortgage loans and substitute assets
Covered bond rating	AAA/Stable
Cover pool notional amount as of Sept. 30, 2022 (mil. €)	1,635.2
Outstanding covered bonds as of Sept. 30, 2022 (mil. €)	1,266.9
Redemption profile	Hard bullet
Resolution regime uplift	2
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	18.73
Credit enhancement commensurate with current rating (%)	15.37
Available credit enhancement as of Sept. 30, 2022 (%)	29.07
Assigned collateral support uplift	3
Unused notches for collateral support	1
Total unused notches	1

Transaction Structure

Bausparkasse Wüstenrot AG Mortgage Covered Bond Program



Wuestenrot group is a bank assurance group active predominantly in Austria, with small operations in neighboring Central and Eastern European countries in both banking and insurance segments. BWAG, a building society (Bausparkasse), is the largest entity in the Wuestenrot group with total assets of €6.34 billion as of year-end 2021.

BWAG is subject to the Austrian Building Society Act (Bausparkassengesetz - BSpG), which significantly restricts business opportunities for building societies when compared to those of universal banks. Building societies are authorized to take deposits from customers and provide them with loans for housing-related measures and measures in relation to education and care.

BWAG has a long and established track record and high market share in its niche building savings loan business. It funds itself mostly through retail deposits with most linked to savings contracts. In December 2013, BWAG received its license to issue covered bonds, allowing it to diversify its refinancing opportunities. It uses covered bonds to manage asset liability maturity mismatch and interest rate risk. Covered bond issuance is currently limited to 20% of the total balance sheet.

As of Sept. 30, 2022, BWAG has €1,266.9 million of mortgage covered bonds outstanding (up from €718.9 million in our 2021 review), backed by a cover pool balance of €1,635.2 million (€1,021.4 million previously). The available credit enhancement as of Sept. 30, 2022, is 29.07% (down from 42.08% previously); see "Transaction Update: Bausparkasse Wuestenrot AG (Covered Bonds)," published on Jan. 11, 2021.

BWAG collects payments from the cover pool assets in bank accounts held in its name with third-party credit institutions.

There are no interest swap agreements present in the cover pool register.

Table 2

Program Participants

Role	Name	Rating	Rating dependency
Issuer	Bausparkasse Wüstenrot AG	BBB/Stable/A-2	Yes
Originator, servicer	Bausparkasse Wüstenrot AG	BBB/Stable/A-2	No

Rating Analysis

Legal and regulatory risks

We base our legal analysis on our "Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," criteria, published on March 29, 2017, and our covered bond ratings framework.

BWAG's outstanding mortgage covered bonds were issued under the previous Austrian Pfandbriefgesetz (Mortgage Bond Act) while covered bonds issued from the program after the 7th of July 2022 are issued under Austria's new covered bond law ("Pfandbriefgesetz") which implements the EU's Covered Bonds Directive. The revised law merges the three current laws ("Hypothekenbankgesetz," "Pfandbriefgesetz," and the "Gesetz betreffend fundierte Bankschuldverschreibungen") into one, lessening the legal complexity for Austrian covered bonds.

Covered bonds that were issued before July 8, 2022, will not be required to fulfill the requirements of the new law, and we understand that BWAG's current outstanding bonds issued before July 8, 2022, will be grandfathered with the original designation.

The covered bonds constitute direct, unconditional, and unsubordinated obligations of the issuer and rank pari passu among themselves and with all other obligations secured by the cover pool register. Covered bondholders and registered derivative counterparties have recourse to the issuer and--in the event of an issuer insolvency--to the assets comprised in the cover register.

The new legislation includes--among others--a 180-day liquidity buffer requirement, a 2% minimum overcollateralization requirement, the possibility for the special cover pool administrator to extend the maturity of the covered bonds by a maximum of 12 months subject to certain conditions, the appointment of a cover pool monitor (which can be internal or external at the issuer's choice), and the requirement of a borrower's consent for a loan to be registered as a cover pool asset.

Derivatives are allowed for risk hedging purposes and must be registered in the cover register subject to prior consent of the counterparty.

Under the new legislation, LTV limits can be deduced from the reference of eligible cover assets to CRR Art 129 (1), including an LTV limit of 80% of the value of the property for residential real estate, and 60% for commercial real estate. For commercial real estate, a limit of up to 70% is also possible. At the same time, issuers can set lower LTV limits in their articles of association.

Borrowers do not have the right to set off any deposits they have with the issuer against their mortgages in the cover pool register. The prohibition of set off does not apply to derivative contracts, when netting occurs for receivables arising under one and the same master agreement.

From our legal analysis of the Austrian Pfandbriefgesetz, we conclude that it addresses the main legal aspects that we assess in a covered bond legislation. Our analysis concluded that the cover pool register is effectively isolated from the issuer's insolvency estate for the benefit of the covered bondholders.

If the issuer becomes insolvent, a bankruptcy court, after consultation with the Austrian regulator (the Financial Market Authority) will appoint a cover pool administrator to continue the cover pool's management and to satisfy the covered bondholders' claims. The cover pool assets' protection and the cover pool's continued management allow us to assign a higher rating to the covered bond program than BWAG's long-term ICR.

Operational and administrative risks

Our analysis of operational risk follows the principles laid out in our covered bond ratings framework and our covered bonds criteria.

We have conducted a review of the issuer's origination, underwriting, collection, and default management procedures. We have also reviewed the cover pool register's management and administration. In our opinion, there is no operational risk from the cover pool's management and loan origination that would constrain the covered bond rating to our assessment of the issuer's creditworthiness.

BWAG is subject to specific regulations under the Austrian Building Society Act focused on promoting residential mortgage lending and regular savings. Savings contracts provided by building societies receive a state-backed savings premium.

BWAG uses multiple distribution channels, allowing for a wide customer reach across Austria. Distribution channels include a network of financial advisors, customer service centers, mortgage brokers, and partnerships with various commercial banks. All loan decisions are retained at BWAG.

Under the Austrian Building Society Act, mortgage loans can be offered up to a maximum loan amount of €240,000 per person and a maximum of 80% of a property's market value.

BWAG only grants euro-denominated mortgage loans for properties located in Austria. Mortgage loans can have a maximum maturity of 35 years and are amortizing so that the borrower pays monthly installments of both principal and interest. The interest rate on the mortgage loans is either a floating or fixed rate over a certain term. On average in 2021, newly granted mortgage loans had an amount of €141,280 and a maturity of 31.1 years, with 62.4% having a fixed interest rate for 10 years or more.

BWAG has established internal criteria for loans it considers eligible for cover pool inclusion to maintain the cover pool's credit quality. For example, although it can grant loans up to 80% of a property's market value, it voluntarily limits the loan amount for cover pool inclusion to 60% of the property's market value, providing covered bondholders with an additional protection against credit losses in case of borrower default.

In addition, loans in arrears for more than 60 days and nonperforming loans are excluded from the cover pool. BWAG removes loans from the cover register if a borrower's performance deteriorates beyond a predetermined threshold as measured by the bank's internal rating of the borrower.

BWAG has a public commitment to maintain a level of overcollateralization consistent with a 'AAA' rating. We believe these factors, together with the ICR on BWAG, indicate its commitment and ability to support the covered bonds.

As part of the lending process, BWAG requires proof of income, and it conducts affordability and credit history checks. Each borrower's income development is considered over the loans' life cycle, and borrower credit quality is assessed using the bank's internal scoring system. The average debt servicing ratio in 2021 was about 32.6% (compared to 31.3% in 2020) and remains well below the Financial Market Stability Board's maximum value of 40% of household net income.

Property valuations are performed offsite by appraisers that are independent from the loan decisions using a software system. Residential property values are reviewed annually based on the evolution of Austria's house-price index.

Overall, we view BWAG's mortgage underwriting procedures as prudent. It is active exclusively in Austria as a well-established specialist in its niche building savings loan business. Its credit risk profile is low, in our view, which is specific to the highly granular and collateralized building savings loan business. This is also supported by low levels of nonperforming loans, which, as of July 2022, stood at 0.8%.

We have taken these factors into account in our determination of the cover pool's foreclosure frequency in our originator adjustment factor.

We also believe that a replacement cover pool manager could be appointed if the issuer were to become insolvent. We consider Austria to be an established covered bond market, and we believe that the mortgage assets in the cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers or servicers. In addition, in line with our global RMBS criteria, we assumed a stressed fee of 35 basis points (bps) in our cash flow analysis, which we believe sufficient to attract a replacement servicer.

Resolution regime analysis

As part of our covered bonds criteria, our analysis considers the resolution regime in place in Austria to determine the RRL. The RRL on BWAG, is 'a-'. We consider the following factors:

- BWAG is domiciled in Austria, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD), which excludes covered bonds from bail-in-able debt.
- We assess the systemic importance for Austrian mortgage covered bonds as very strong.
- Therefore, the RRL is the greater of (1) the ICR on BWAG plus two notches; and (2) the resolution counterparty rating (RCR) on the issuer, where applicable. Because we do not assign an RCR to BWAG, the RRL is 'a-', two notches above the ICR.

This uplift recognizes that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations. This is because the law exempts covered bonds from bail-in if there is a bank resolution. We consider this as an internal form of support, because the bail-in of certain creditors of the issuer does not require direct government support. This increases the likelihood that an issuer would continue to service its covered bonds without accessing the cover pool or receiving jurisdictional support, even if it were to face failure.

Jurisdictional support analysis

The covered bond program's JRL is 'aa-'. The JRL is our assessment of the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of liquidating cover assets in the open market.

Our jurisdictional support analysis assesses three factors: the legal framework's strength, the covered bonds' systemic importance, and the sovereign's credit capacity. For Austrian mortgage covered bonds, we assess all three factors as very strong leading to an overall jurisdictional support assessment of very strong. In addition, our sovereign rating on Austria (AA+/Stable/A-1+) does not constrain the JRL. As a result, the covered bonds benefit from three notches of jurisdictional support uplift above the RRL.

Collateral support analysis

Our collateral support analysis is based on loan-level data as of Sept. 30, 2022. The cover pool's register of €1,635.2 million contains euro-denominated residential mortgage loans (97.9%) and substitute assets (2.1%).

Our analysis of the residential mortgage loans is based on the specific adjustments defined for Austria under our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019). We analyze the small share of substitute assets under our public sector criteria (see "Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities," published on Dec. 9, 2014).

The cover pool is purely domestic, regionally diversified, and very granular, with an average loan size of about €154,000 (by borrower and current balance) according to our analysis and no major concentrations. The weighted-average mortgage loan seasoning is about 3.7 years, and the weighted-average original LTV is 73%. Our calculation of original LTV includes the original loan amount, any subordinated loans, any prior-ranking balances, and the reported property valuation at the time of origination.

BWAG voluntarily restricts the LTV to 60% when determining the eligible amount for cover pool inclusion. The cover pool's weighted-average current LTV as per our calculation using the reported loan-level data is about 52%.

All mortgage loans in the cover pool are amortizing loans with borrowers paying monthly installments of principal and interest.

For the residential loans in the pool, our analysis estimated the foreclosure frequency and the loss severity in a 'AAA' stress scenario and, by multiplying the foreclosure frequency by the loss severity, the potential loss associated with each loan in the pool. To quantify the potential losses associated with the entire pool, we weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance. The product of the weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged. We assume that the probability of foreclosure is a function of both borrower and loan characteristics and will become more likely--and the realized loss on a loan more severe--as the economic environment deteriorates.

Compared to our 2021 annual review, our WAFF and WALS have improved. As of Sept. 30, 2022, we determined a WAFF of 16.05% (previously 17.33%) and a WALS of 39.46% (previously 40.76%). These measures are based on a 'AAA' stress level. The resulting projected loss figure is therefore 6.33% of the current cover pool balance. The lower WAFF is mainly due to decreased effective LTV ratios and increased loan seasoning. The higher the share of loans in the pool with a seasoning exceeding five years, the lower the pool's WAFF, all else being equal. The share of loans with a seasoning exceeding five years is about 27.4% compared to 23.6% in our previous analysis (see table 7). The cover pool's WALS reduced mainly due to the lower current LTV ratios.

The small share of substitute assets comprises Austrian sovereign bonds (rated 'AA+'). We assume these to default in a 'AAA' stress scenario, with a 25% immediate recovery according to our public sector criteria.

Tables 3-8 show the cover pool's stratifications according to our analysis.

Table 3

Cover Pool Composition

	As of Sept. 30, 2021		As of Sept. 30, 2021	
Asset type	**Value (€)**	**Percentage of cover pool**	**Value (€)**	**Percentage of cover pool**
Residential mortgages	1,601,002,428.45	97.91	1,001,259,439.75	98.03
Substitute assets	34,150,000.00	2.09	20,150,000.00	1.97
Total	1,635,152,428.45	100	1,021,409,439.75	100.00

Table 4

Key Credit Metrics

	As of Sept. 30, 2022	As of Sept. 30, 2021
Average loan size in the cover pool (per borrower based on current loan balances €)	154,306	145,179
Weighted-average whole loan original LTV ratio (%)	73.11	72.80
Weighted-average effective loan original LTV ratio (%)*	71.89	72.60
Weighted-average cover pool LTV ratio (%)§	52.31	57.10
Weighted-average loan seasoning (months)†	44.07	40.85
Balance of loans in arrears (%)	0.00	0.00
Second-lien mortgage (% cover pool notional)	25.89	27.54
Self-employed (% cover pool notional)	3.12	3.20
Credit analysis results		
Weighted-average foreclosure frequency (%)	16.05	17.33
Weighted-average loss severity (%)	39.46	40.76
'AAA' credit risk (%)	5.29	3.93

*Calculated weighting 80% of the original LTV and 20% of the current LTV. LTVs are based on the full loan balances secured on the property, including loan parts outside the asset pool and prior- and second-ranking balances if any. §Adjusted for developments in the house-price index. †Seasoning refers to the elapsed loan term. LTV—Loan to value.

Table 5

Cover Pool Assets By Loan Size

	As of Sept. 30, 2022	As of Sept. 30, 2021
(€ '000s)	**Percentage of current residential mortgage loan balance**	
0-100	18.76	14.22

Table 5

Cover Pool Assets By Loan Size (cont.)

	As of Sept. 30, 2022	As of Sept. 30, 2021
(€ '000s)	Percentage of current residential mortgage loan balance	
100-300	71.97	69.90
300-500	7.89	13.95
500-1000	1.38	1.93

Table 6

Loan-To-Value Ratios

As a percentage of the residential mortgage loan balance

	As of Sept. 30, 2022		As of Sept. 30, 2021	
LTV ratios (%)	Effective LTV ratio	Cover pool current LTV ratio	Effective LTV ratio	Cover pool current LTV ratio
0 - <10	0.06	0.51	0.05	0.31
10 - <20	0.55	2.36	0.55	1.64
20 - <30	1.32	4.79	1.43	3.22
30 - <40	2.66	9.82	2.65	5.73
40 - <50	4.22	27.55	4.41	15.42
50 - <60	6.89	31.66	6.69	37.74
60 - <70	10.90	14.47	10.23	25.02
70 - <80	51.87	2.24	44.49	2.15
80 - <90	18.63	2.39	25.81	2.33
90 - <100	2.87	2.19	3.62	2.72
>100	0.04	2.01	0.07	3.72

LTV--Loan- to-value.

Table 7

Loan Seasoning Distribution*

	As of Sept. 30, 2022	As of Sept. 30, 2021
	Percentage of current residential mortgage loan balance	
Less than 18 months	16.06	20.85
18-60	56.59	55.50
More than 60	27.35	23.65
Weighted-average loan seasoning (months)*	44.07	40.85

*Seasoning refers to the elapsed loan term.

Table 8

Geographic Distribution Of Loan Assets

	As of Sept. 30, 2022	As of Sept. 30, 2021
	Percentage of current residential mortgage loan balance	
Lower Austria (Niederoesterreich)	22.39	23.22
Upper Austria (Oberoesterreich)	18.69	17.30
Carinthia (Kaernten)	12.08	12.48

Table 8

Geographic Distribution Of Loan Assets (cont.)

	As of Sept. 30, 2022	As of Sept. 30, 2021
Styria (Steiermark)	12.94	12.85
Vienna (Wien)	12.00	11.43
Tyrol (Tirol)	9.27	9.28
Salzburg	6.08	6.21
Burgenland	4.81	5.24
Vorarlberg	1.74	1.98

The results of our credit analysis, including the WAFF of 16.05% and weighted-average recovery rate (1-WALS) equivalent to 60.54%, represent inputs to our cash flow analysis. We stress the cover pool's cash flows, incorporating various default patterns, default timings, various interest rate stresses, prepayment rates, and delinquency assumptions.

The structure is exposed to an asset-liability maturity mismatch because the covered bonds' repayment profile is not aligned with that of the assets. Our model simulates a stressed sale of assets whenever a liquidity gap occurs in our analysis. The adjustment applied for the residential mortgages is 425 bps on top of the stressed interest rate at the time of the shortfall.

As of Sept. 30, 2022, the weighted-average maturity of the outstanding covered bonds was 7.8 years, while the weighted-average maturity of the cover pool assets was 24.5 years. Since our previous review, the asset-liability maturity gap has increased to about 6.8 years from about four years.

Our cash flow analysis determines the target credit enhancement needed to achieve the maximum potential collateral-based uplift, inclusive of 100% refinancing costs and the credit enhancement required to cover 'AAA' credit risk assuming no asset-liability maturity mismatch.

The cover pool does not include interest rate swaps to mitigate the interest rate risk resulting from the differences in interest received on the assets versus the interest payable on the covered bonds. Such risk is partially mitigated by the fact that most of the mortgages (75.5%) pay fixed interest rates over a defined term, while most covered bonds (96.5%) also pay a fixed interest rate. Most of the mortgage loans have interest reset dates with embedded caps and floors in their variable phase.

In our cash flow analysis, we also sized for the fact that cover pool collections held in third-party bank accounts may be at risk, if not reinvested in cover pool assets or used to make payments on the covered bonds.

We have calculated a 'AAA' credit risk of 5.29% and a target credit enhancement commensurate with the maximum potential collateral-based uplift of four notches of 18.73%. The increase in both figures since our previous review is driven by a reduction in the difference between the interest generated by the assets and the interest payable on the covered bonds. In addition, the target credit enhancement increased due to the increased asset-liability maturity mismatch.

With an available credit enhancement of 29.07%, the covered bonds can achieve a potential four-notch collateral-based uplift above the JRL. As outlined above (see "Rationale"), no deduction applies resulting in a maximum collateral-based uplift of four notches above the JRL (see table 9). The covered bonds use three notches to achieve a 'AAA' rating, resulting in one unused notch of collateral support, which would protect the ratings on the covered bonds in the event of a one-notch issuer downgrade, all else being equal.

Table 9

Collateral Support Uplift Metrics

	As of Sept. 30, 2022	As of Sept. 30, 2021
Asset weighted-average maturity (years)	14.56	14.77
Liability weighted-average maturity (years)	7.78	10.62
Maturity gap (years)	6.78	4.15
Available credit enhancement (%)	29.07	42.08
'AAA' credit risk (%)	5.29	3.93
Required credit enhancement for first notch of collateral-based uplift (%)	8.65	5.58
Required credit enhancement for second notch of collateral-based uplift (%)	12.01	7.22
Required credit enhancement for third notch of collateral-based uplift (%)	15.37	8.87
Target credit enhancement for maximum potential collateral-based uplift (%) – credit enhancement required for current rating	18.73	10.51
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	N	N
Collateral based uplift (notches)	4	4

WAM--Weighted-average maturity.

Counterparty risk

We have identified bank account risk to which the covered bonds are exposed. However, we consider such risk in our cash flow modeling and therefore believe that it does not constrain the ratings on the covered bonds (see "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019).

Borrowers effect their payments via direct debit or bank transfer into the accounts held with the account bank providers. BWAG uses these accounts in its normal course of business. Cash collections are accessible at any time.

There is no documented replacement mechanism in place, which would protect the covered bondholders from the bank account providers' credit deterioration. Therefore, in our cash flow analysis we considered the risk that cover pool collections may be lost if they have not been reinvested in cover assets or used to pay the covered bonds.

We have stressed this risk in our analysis by assuming that one month of collections are lost. This assumption considers that most collections are done via direct debit and are spread throughout the month. In addition, BWAG as part of its risk management process monitors its bank accounts to manage the exposure if the counterparty's credit quality deteriorates.

Sovereign risk

Given the long-term sovereign rating on Austria of 'AA+', sovereign risk does not constrain our ratings on the covered bonds under our criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And

Assumptions," published Jan. 30, 2019).

Under our structured finance sovereign risk criteria, covered bonds issued in a jurisdiction that is within a monetary union that do not include structural coverage of refinancing needs over a 12-month period exhibit moderate sensitivity to country risk. As a result, we can rate the covered bonds up to four notches above the sovereign rating.

Environmental, Social, And Governance (ESG) Factors

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of the mortgage covered bonds. The business focuses on private savings and residential mortgage lending. The main mortgage product provides borrowers a secure way of obtaining a mortgage by converting savings (Bausparvertrag) into a mortgage. Combined with a maximum loan size of €240,000 per person, this results in a very granular residential mortgage cover pool. BWAG commits to maintain a minimum level of overcollateralization that is commensurate with a 'AAA' rating.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
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Related Research

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