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Transaction Update: Oberbank AG (Mortgage Covered Bond Program)

Hypothekarisch fundierte Bankschuldverschreibungen

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Table Of Contents

Major Rating Factors

Outlook: Stable

Rationale

Program Description

Rating Analysis

Environmental, Social, And Governance

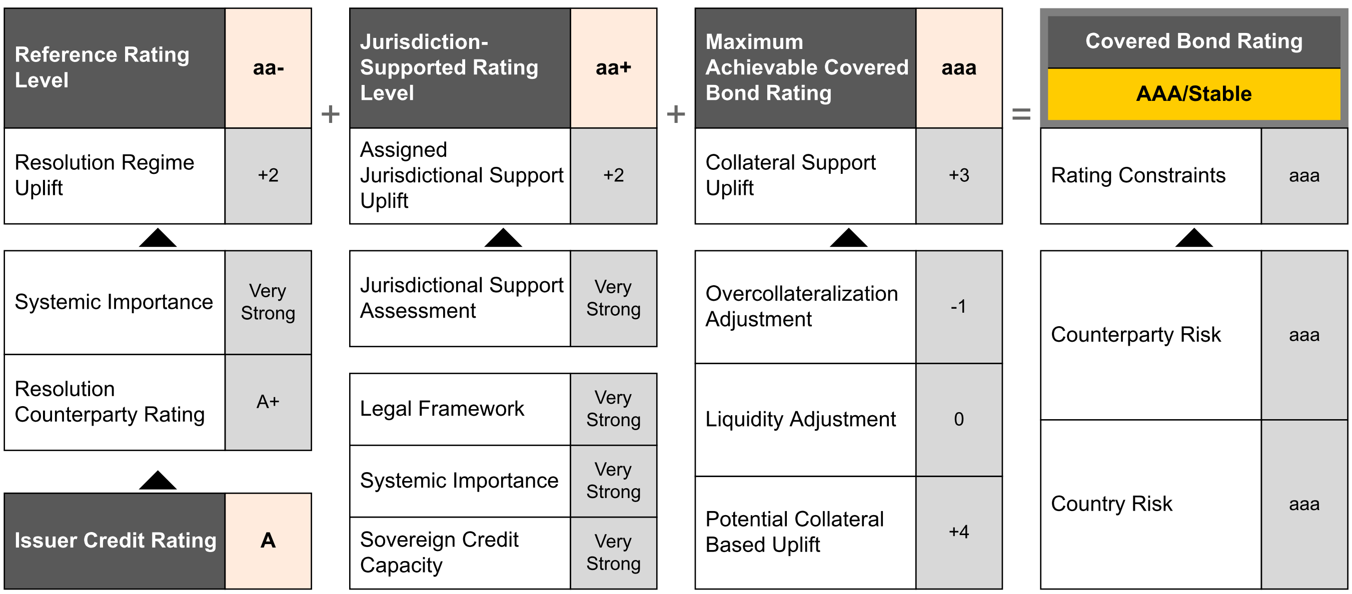
Related Criteria

Related Research

Transaction Update: Oberbank AG (Mortgage Covered Bond Program)

Hypothekarisch fundierte Bankschuldverschreibungen

Ratings Detail



Major Rating Factors

Strengths

- Available credit enhancement (79.69%), which by far exceeds the credit enhancement required at the 'AAA' rating level (17.92%).
- The portfolio does not contain mortgage loans in arrears.
- The ratings on the covered bonds benefit from one unused notch of jurisdictional support and two unused notches of collateral-based uplift.

Weaknesses

- Concentration of residential mortgages in the State of Upper Austria.
- Absence of commitment to maintain overcollateralization in line with the currently assigned rating on the covered bonds.

Outlook: Stable

S&P Global Ratings' stable outlook on our ratings on the mortgage covered bonds ("hypothekarisch fundierte Bankschuldverschreibungen") reflects the cushion of three unused notches--comprising one notch of jurisdictional-based support and two notches of collateral-based support--that would protect the ratings on the covered bonds if we were to lower the long-term issuer credit rating (ICR) on Oberbank AG by up to three notches.

We would lower our ratings on the covered bonds if the available credit enhancement became insufficient to cover the credit enhancement required for the current rating, either because of a reduction by the issuer of the available credit enhancement, or because of deteriorations of the cover pool's credit risk profile.

Rationale

We are publishing this transaction update as part of our annual review of Oberbank AG'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 Bonds Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

Oberbank's mortgage covered bonds are governed by the Austrian Law on Secured Bank Bonds (Law of 12/27/1905, Gesetz betreffend fundierte Bankschuldverschreibungen; FBSchVG). From our analysis of the Austrian legal and regulatory framework for covered bonds, we concluded that the cover pool assets are isolated from the issuer's insolvency risk. This enables us to rate the covered bonds above the long-term ICR on the issuer.

Based on our operational risk analysis, which covers a review of origination, underwriting, collection, and default management procedures, as well as cover pool management and administration, we conclude that the ratings on the covered bonds are not constrained by operational risk.

Under our resolution regime analysis, we determined a reference rating level (RRL) of 'aa-'. This is based on the fact that (i) Oberbank is domiciled in Austria, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD) and (ii) our very strong assessment of the systemic importance of mortgage bonds in Austria. These factors increase the likelihood that Oberbank would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations.

Our jurisdictional support analysis determined the jurisdiction-supported rating level (JRL) of the covered bonds as 'aa+'. We considered the likelihood for the provision of jurisdictional support of Austrian mortgage bonds, which we assess as very strong, resulting in a potential jurisdictional support uplift from the RRL of up to three notches. However, given our foreign currency long-term rating on Austria (AA+/Positive/A-1+), we can only assign two notches of jurisdictional support uplift above the RRL. As a result, the covered bonds have one unused notch of jurisdictional support.

Our collateral support analysis determines to what extent the available collateral further increases the covered bonds' creditworthiness above the JRL of 'aa+'. We based our analysis on loan-by-loan data as of Dec. 31, 2021, with a total current balance of €3.084 billion.

As of Dec. 31, 2021, according to our analysis the cover pool includes Austrian and German residential mortgages (together about 51.6% of total current balance) and Austrian and German commercial mortgages (together about 48.4% of total current balance). The available overcollateralization of 79.7% exceeds the target credit enhancement of 20.7% as determined in our collateral support analysis. Therefore, the covered bonds are eligible for four notches of potential collateral-based uplift above the JRL. From this potential uplift, we deduct one notch due to uncommitted overcollateralization. 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 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 three notches above the JRL, of which one notch is used to achieve a 'AAA' rating. As a result, the covered bonds have two unused notches of collateral support, which together with one unused notch of jurisdictional support would protect the ratings on the covered bonds in the event of an issuer downgrade by up to three notches.

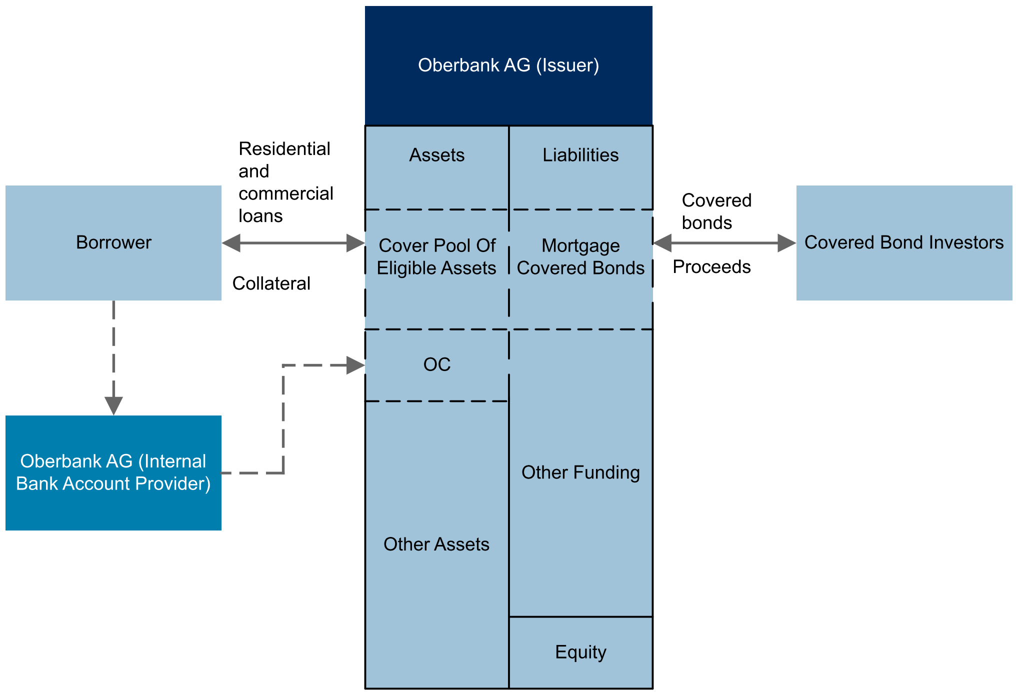
There are no rating constraints to the 'AAA' ratings relating to counterparty and sovereign risks.

Program Description

Table 1

Program Overview	
As of Dec. 31, 2021	
Jurisdiction	Austria
Rating	AAA/Stable
Covered bond type	Legislation-enabled
Outstanding covered bonds (mil. €)	1,716.5
Redemption profile	Hard and soft bullet
Underlying assets	Residential mortgages and commercial mortgages
Assigned jurisdictional support uplift	2
Unused notches for jurisdictional support	1
Target credit enhancement (%)	20.70
Credit enhancement commensurate with current rating (%)	17.92
Available credit enhancement (%)	79.69
Collateral support uplift	3
Unused notches for collateral support	2
Total unused notches (jurisdictional and collateral support)	3

OberbankAG Mortgage Covered Bond Program



OC--Overcollateralization.

With about €27 billion in assets, Oberbank is a midsize universal bank in Austria with a strong regional focus, mainly in Upper Austria and Salzburg, and to a lesser extent in Lower Austria and Vienna. It also has an established presence in neighboring countries including Germany, Czech Republic, and Hungary.

We first assigned a rating to Oberbank's covered bonds in March 2017. The covered bonds are issued under its debt issuance program or by using stand-alone documentation. To date, there are €1,716.5 million of mortgage covered bonds outstanding.

The covered bonds constitute senior secured unsubordinated obligations of the issuer and rank pari passu with all other obligations secured by the cover pool register. Covered bondholders have recourse first to Oberbank, and should insolvency proceedings against the issuer be launched, to the assets in the cover pool register.

Compared to our previous analysis, the cover pool has increased by about €563.5 million (22.4%), while the amount of outstanding covered bonds increased by 38.8% to €1,716.5 million from €1,236.5 million (see "Transaction Update: Oberbank AG (Mortgage Covered Bond Program)," published on March 23, 2021). As a result, overcollateralization has reduced to 79.7% from 83.1%.

Cover pool assets and liabilities are denominated in euros. About 57.7% of assets are variable-rate paying while variable-pay liabilities account for about 47.8% of outstanding covered bonds. There are no derivatives registered in the cover pool, and we have modeled any interest rate risk arising from mismatches between the interest payable on the assets versus the interest payable on the covered bonds in our cash flow model, Covered Bond Monitor.

Oberbank provides the bank account for the covered bond program. In the absence of structural mitigants, we have taken the associated counterparty risk into account when determining the required credit enhancement at a 'AAA' rating level.

Table 2

Program Participants

Role	Name	Rating	Rating dependency
Issuer	Oberbank AG	A/Negative/A-1	Yes
Arranger	Oberbank AG	A/Negative/A-1	No
Originator/servicer	Oberbank AG	A/Negative/A-1	No
Bank account provider	Oberbank AG	A/Negative/A-1	No

Rating Analysis

Legal and regulatory risks

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

The covered bonds are issued under the Austrian Law on Secured Bank Bonds ("Gesetz betreffend fundierte Bankschuldverschreibungen"). The mortgage covered bonds are secured by a cover pool of residential and commercial mortgages recorded by the issuer in a cover pool register. In addition, the allocation of mortgages to the cover pool register is indicated in the surety registry (by means of a "Kautionsband") of the land register. Borrowers must be notified in advance of any inclusion of their mortgages in the cover pool register. Under the legal framework, 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 cover pool register is monitored by a trustee ("Regierungskomissär") appointed by the Ministry of Finance. The trustee has to ensure among other factors, that the prescribed cover for the covered bonds exists at all times and that the assets are recorded correctly. Assets may not be removed from the register without the approval of the trustee. The issuer is also subject to audits by the Austrian Financial Market Authority.

The Law on Secured Bank Bonds provides, among other things, that the total volume of assets in the cover pool register must at least cover the total nominal amount of the outstanding covered bonds, the interest payable on the outstanding covered bonds, and the potential running costs if the issuer becomes insolvent. The Law on Secured Bank Bonds does not contain an explicit provision for property valuation. However, Oberbank adheres to a 60% loan-to-value (LTV) limit in respect of determining the aggregate amount of covered bonds that it can issue from the cover pool register.

From our analysis, we have concluded that the cover pool register is effectively isolated from the issuer's insolvency for the benefit of the covered bondholders. If the issuer becomes insolvent, a court will appoint a cover pool administrator to continue the cover pool's management and to satisfy the covered bondholders' claims. The protection of the assets and continued management of the cover pool allows us to assign a higher rating to the covered bond program than the long-term ICR on the issuer.

Austria's new covered bond law ("Pfandbriefgesetz") implementing the EU's Covered Bonds Directive was published on Dec. 10, 2021, and enters into force on July 8, 2022. 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. An issuance made before July 8, 2022, will not be required to fulfill the requirements of the new law, and outstanding bonds will be grandfathered with the original designation.

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 borrower consent for a loan to be registered as cover asset.

We do not expect any immediate rating effect from the amendments (see "Austrian Covered Bonds Harmonization Proposal Merges Three Laws Into One," published on June 10, 2021).

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.

The origination of residential mortgage loans occurs mainly through Oberbank's branches and through a limited extent, using the bank's cooperation partners. Commercial mortgages are originated only via the issuer's branches. The issuer's philosophy is to build long-term client relationships providing specialized advisory services for real estate clients and achieving stable cash flows through a balance of risk and return.

Housing loans are subject to a maximum LTV ratio of 80%, a debt-to-income ratio of 6x, and a debt service-to-income ratio of 30%. As part of the origination process, the bank requires proof of income and conducts affordability and credit history checks. Residential loans are granted up to a maximum term of 30 years with the amount granted considering the borrower's income, and the collateral value. Residential loans are typically repayment loans with borrowers paying monthly installments of principal and interest. Repayment free periods of up to five years from the start of the loan term are possible. Loans are variable or fixed interest rate paying with an increasing trend towards fixed-rate loans. The maximum interest rate fixation period is 15 years. Interest-only loans with a maximum maturity of six years are granted to a limited extent, subject to special permission.

For commercial mortgages depending on the object type, the bank typically limits the LTV ratio to a maximum of 80% and requires a debt service coverage ratio of at least 1.2. Oberbank does not typically pursue long-term financings of buy-to-let properties with a loan size of €3 million or more or long-term financings of housing cooperatives ("Wohnbaugenossenschaften").

In our opinion, there is no operational risk from the cover pool's management and loan origination that would constrain the covered bond ratings. We have taken this into account in our determination of the cover pool's foreclosure frequency by using an originator adjustment factor of less than 1.

We also believe that a potential replacement cover pool manager would be available 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, we have modelled a stressed blended portfolio servicing fee of 37 basis points (bps), which we believe is sufficient to attract a replacement servicer.

Resolution regime analysis

The RRL on Oberbank's covered bonds is 'aa-'. The RRL reflects our assessment of the creditworthiness of the covered bonds considering the resolution regime.

In determining the RRL, we consider the following factors:

- Oberbank is domiciled in Austria, which is subject to the EU's BRRD.
- Our very strong assessment of the systemic importance for Austrian mortgage covered bonds, which allows for two notches of uplift from the ICR on Oberbank.

These factors recognize 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 because the law exempts covered bonds from bail-in. 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.

Jurisdictional support analysis

The JRL on the covered bonds is 'aa+', which is two notches above the RRL and equivalent to the long-term sovereign rating on Austria (AA+/Positive/A-1+). The JRL is our assessment of the likelihood that the covered bonds in case of stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market.

Given our very strong jurisdictional support assessment of mortgage covered bonds in Austria, the covered bonds can receive up to three notches of jurisdictional support uplift above the RRL. However, given Austria's sovereign rating, only two notches of jurisdictional support can be assigned. Therefore, the covered bonds have one unused notch for jurisdictional support, which could protect the ratings on the covered bonds in the event of a deterioration of the ICR on Oberbank.

Collateral support analysis

Our analysis of the residential mortgage loans is based on the specific adjustments defined for Austria and Germany under our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

We analyze the commercial portion of the cover pool using our commercial real estate criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

We base our analysis on loan-by-loan and asset and liability cash flow data as of Dec. 31, 2021.

Since our previous review, the cover pool has increased to €3.08 billion from €2.52 billion. Compared to our previous review, the share of commercial mortgages according to our classification has increased, while the residential share reduced (see table 3). Under our commercial real estate criteria, exposures to housing cooperatives ("Wohnbaugenossenschaften") are classified as commercial properties. Within the commercial pool multifamily housing exposures, which we view as less risky than traditional commercial real estate, represent about 25.6% of commercial mortgage loans.

Table 3

Cover Pool Composition

	As of Dec. 31, 2021		As of Dec. 31, 2020	
Asset type	**Value (€)**	**Percentage of cover pool (%)**	**Value (€)**	**Percentage of cover pool (%)**
Residential mortgages	1,592,241,456	51.62	1,681,016,232	66.68
Commercial mortgages	1,492,185,396	48.38	839,861,946	33.32
Total	3,084,426,852	100	2,520,878,178	100

We view the residential mortgage portfolio as fairly granular. Most of the residential mortgages are granted for owner occupation, with a limited share of buy-to-let properties. The weighted-average seasoning is about 44.3 months. The weighted-average current LTV ratio including prior ranking balances for the residential and commercial mortgage loans is about 51.04% and 66.9% respectively.

The cover pool does not include loans in arrears or defaulted loans as the issuer removes loans from the cover pool register if a borrower's performance deteriorates beyond a predetermined threshold as measured by the borrower's bank internal rating. Further, syndicated loans, employee loans, and borrowers with overdrawn accounts are currently not included in the cover pool.

For the loans in the pool, our analysis estimated the foreclosure frequency and the loss severity and, by multiplying the foreclosure frequency by the loss severity, the potential loss associated with each loan. To quantify the potential losses associated with the entire pool, we calculated a weighted-average foreclosure frequency (WAFF) and a weighted-average loss severity (WALS) assuming 'AAA' credit stresses. The product of these two variables estimates the required loss protection, in the absence of additional factors. 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.

As of Dec. 31, 2021, at a 'AAA' level of stress the WAFF and WALS for the combined pool of Austrian and German residential mortgages are 18.5% (21.5% in December 2020) and 33.2% (35.3% previously), respectively. The improvement in the combined residential portfolio's WAFF is mainly driven by a reduction in effective LTV ratios, an increase in seasoning, and a reduction in interest-only loans. The lower combined Austrian and German residential WALS is mainly due to the reduction in current LTV ratios.

For the Austrian and German commercial pool, the combined WAFF is 35.8% (32.3% previously) and the WALS is 59.9% (52.1% previously). The increase in the commercial loan portfolio's WAFF and WALS is driven by higher current LTV ratios.

For the entire cover pool of Austrian and German residential and commercial mortgage loans our WAFF is 26.8% (25.1% previously) and 46.1% (40.9% previously).

Table 4

Key Credit Metrics

	As of Dec. 31, 2021	As of Dec. 31, 2020
Residential mortgages		
Average loan size (€)	131,852	237,774
Weighted-average effective LTV ratio (%)*	69.79	76.66
Weighted-average original LTV ratio (%)	74.47	81.15
Weighted-average current LTV ratio (%)	51.04	58.67
Weighted-average loan seasoning (months)§	44.30	40.45
Balance of loans in arrears (%)	0.00	0.00
Residential mortgages credit analysis results		
WAFF (%)	18.49	21.54
WALS (%)	33.19	35.31
Commercial mortgages		
Weighted-average current LTV ratio (%)	66.90	60.44
Commercial mortgages credit analysis results		
WAFF (%)	35.76	32.33
WALS (%)	59.88	52.11
Combined mortgage pool credit analysis results		
WAFF (%)	26.84	25.13
WALS (%)	46.10	40.90
'AAA' credit risk (%)	15.13	11.61

*Calculated weighting 80% of the OLTV and 20% of the CLTV. 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. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Table 5

Loan-To-Value Ratios

	As of Dec. 31, 2021	As of Dec. 31, 2020
WAFF-effective LTV/whole LTV ratios (%)		

Table 5

Loan-To-Value Ratios (cont.)		
Residential mortgages - effective LTV ratios (%)		
0-40	15.04	13.40
40-50	10.53	9.96
50-60	14.67	14.87
60-70	15.08	14.77
70-80	14.30	15.93
80-90	11.66	11.43
90-100	9.56	7.34
>100	9.18	12.30
Weighted-average effective LTV ratio	69.79	76.66
Commercial mortgages - current LTV ratios (%)		
0-40	19.79	27.79
40-50	10.17	13.19
50-60	12.17	9.74
60-70	13.96	13.24
70-80	18.15	7.71
80-90	7.29	11.68
90-100	14.16	11.57
>100	4.31	5.09
Weighted-average current loan LTV ratio	66.9	60.44
WALS-current LTV ratios (%)		
Residential mortgages - current LTV ratios after HPI, based on current balance (%)		
0-40	38.62	31.28
40-50	15.94	14.78
50-60	12.85	15.02
60-70	11.95	10.23
70-80	8.50	11.82
80-90	6.55	7.49
90-100	2.31	3.50
>100	3.28	5.88
Weighted-average current LTV ratio	51.04	58.67
Commercial mortgages - current LTV ratios, based on current balance (%)		
0-40	19.79	27.79
40-50	10.17	13.19
50-60	12.17	9.74
60-70	13.96	13.24
70-80	18.15	7.71
80-90	7.29	11.68
90-100	14.16	11.57
>100	4.31	5.09
Weighted-average current LTV ratio	66.9	60.44

Table 5

Loan-To-Value Ratios (cont.)

WAFF--Weighted-average foreclosure frequency. LTV--loan to value. WALS--Weighted-average loss severity.

Table 6

Residential Loan Seasoning Distribution*

	As of Dec. 31, 2021	As of Dec. 31, 2020
	Percentage of current residential mortgage loan balance (%)	
<=5 years	73.09	77.00
>5 and <=6 years	7.12	7.04
>6 and <=7 years	5.95	5.66
>7 and <=8 years	4.87	3.50
>8 and <=9 years	3.21	2.24
>9 and <=10 years	1.94	0.89
>10 years	3.82	3.68
Weighted-average residential loan seasoning (months)	44.30	40.45

*Seasoning refers to the elapsed loan term.

Table 7

Geographic Distribution Of Loan Assets

	As of Dec. 31, 2021		As of Dec. 31, 2020	
	Percentage of residential assets in the pool (%)	Percentage of commercial assets in the pool (%)	Percentage of residential assets in the pool (%)	Percentage of commercial assets in the pool (%)
Austria	**94.14**	**55.21**	**85.99**	**60.60**
Burgenland	1.64	0.64	1.38	0.19
Carinthia (Kaernten)	0.85	0.48	0.00	0.11
Lower Austria (Niederoesterreich)	18.27	8.36	15.99	9.28
Upper Austria (Oberoesterreich)	44.23	12.76	39.54	14.81
Salzburg	9.80	4.47	9.35	5.27
Styria (Steiermark)	2.39	2.13	3.08	1.24
Tyrol (Tirol)	0.90	0.81	0.62	0.13
Vorarlberg	0.06	0.00	0.06	0.00
Vienna (Wien)	16.01	25.56	15.98	29.57
Germany	**5.85**	**44.79**	**14.02**	**39.41**
Baden-Wuerttemberg	0.29	0.8	0.15	1.27
Bavaria (Bayern)	4.40	20.14	10.28	19.07
Berlin	0.06	4.29	0.74	4.76
Brandenburg	0.00	0.16	0.00	0.04
Hamburg	0.25	0.00	0.01	0.00
Hesse	0.14	4.76	1.15	2.57
Lower Saxony (Niedersachsen)	0.00	1.42	0.02	0.00
North Rhine-Westphalia (Nordrhein-Westfalen)	0.04	0.00	0.03	0.37

Table 7

Geographic Distribution Of Loan Assets (cont.)				
Rhineland-Palatinate (Rheinland-Pfalz)	0.09	1.19	0.03	0.22
Saxony (Sachsen)	0.00	1.19	0.81	6.43
Saxony-Anhalt	0.27	6.35	0.66	2.79
Schleswig-Holstein	0.14	2.07	0.00	1.63
Thuringia	0.02	1.44	0.14	0.26

For the purpose of our cash flow analysis, we have determined a weighted-average recovery period for the cover pool of 24 months. In addition, we have calculated a stressed refinancing spread for the cover pool of 703 bps (up from 579 bps previously). The increase in the stressed refinancing spread reflects the increase in the share of commercial real estate. Accordingly, we apply a stressed refinancing spread of 425 bps to the residential mortgages, and 1,000 bps to the commercial mortgages.

The results of our credit analysis, including the cover pool's WAFF of 26.84%, weighted-average recovery rate (1-WALS) equivalent to 53.9%, weighted-average time to recovery, and refinancing costs, represent inputs to our cash flow analysis. We stress the cover pool's cash flows, incorporating among other factors, various default patterns, default timings, various interest rate stresses, prepayment rates, and delinquencies assumptions. The aim of our cash flow analysis is to determine whether the cash flow from the mortgages suffice, at a 'AAA' rating level, to make timely payment of interest and ultimate payment of principal on the covered bonds. Our cash flow analysis determines among other factors, 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 register currently does not include any derivatives to mitigate interest rate risk arising from differences in interest payable on the assets versus the interest received on the liabilities. Of the liabilities, 47.8% are floating rate, with the remainder paying a fixed rate of interest. At the same time, about 57.70% of assets pay a floating rate of interest. We have taken interest rate risk into account, by modeling the collateral composition in our cash flow analysis, considering the interest mismatch as well as basis risk. We also model the possibility that the spread on the mortgages compresses over time, due to defaults, prepayments, and product switches. To account for this, we reduce margins, assuming that a percentage of the higher-yielding loans exit the portfolio.

In our cash flow analysis, we also sized for the fact that cover pool cash flows received prior to the insolvency of the issuer may be at risk, if these are not reinvested in the cover pool assets or used to make payments on the covered bonds.

By applying our credit and cash flow stresses, we calculated a 'AAA' credit risk of 15.1% and a target credit enhancement of 20.7%. Both figures are higher than those in our previous analysis, which is mainly due to the increase in the portfolio's WAFF and WALS. In addition, the higher asset liability maturity mismatch and the increase in refinancing spread have contributed to the increase in the target credit enhancement.

With an available credit enhancement of 79.7%, the covered bonds can achieve a potential collateral-based uplift of four notches above the JRL. We reduce these four notches by one because the program does not benefit from a commitment to maintain overcollateralization at the current rating level. 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-based uplift is three notches above the JRL. The covered bonds use one notch to achieve a 'AAA' rating resulting in two unused notches of collateral support.

Table 8

Collateral Uplift Metrics

	As of Dec. 31, 2021	As of Feb. 28, 2021
Asset WAM (years)	8.84	9.05
Liability WAM (years)	7.54	8.45
Maturity gap (years)	1.30	0.60
Available credit enhancement	79.69	83.06
'AAA' credit risk (%)	15.13	11.61
Required credit enhancement for first notch of collateral uplift (%)	16.52	12.87
Required credit enhancement for second notch of collateral uplift (%)	17.92	14.13
Required credit enhancement for third notch of collateral uplift (%)	19.31	15.39
Target credit enhancement for maximum uplift (%)	20.70	16.65
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	Y
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral support uplift (notches)	3	2

WAM--Weighted-average maturity.

Counterparty risk

Oberbank is the bank account provider for the covered bond program, which potentially exposes investors to bank account and commingling risks. However, we consider such risks in our cash flow modeling and therefore believe that counterparty risk does not constrain the ratings.

There are no derivatives registered in the cover pool.

We analyzed the counterparty risks using our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

Sovereign risk

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 need 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 (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published Jan. 30, 2019).

Given the long-term sovereign ratings on Austria and Germany of 'AA+' and unsolicited: 'AAA', respectively, sovereign risk does not constrain our ratings on the covered bonds.

Environmental, Social, And Governance

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
- N/A					- N/A					- Risk management, culture, and oversight				

N/A--Not applicable. 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 Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental and social credit factors have no material influence on our credit rating analysis of Oberbank's mortgage covered bonds. However, governance factors are a moderately negative consideration in our credit rating analysis of Oberbank's mortgage covered bonds. The issuer has not committed to maintain a minimum level of overcollateralization in the program. This reduces the unused notches of uplift by one.

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
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- 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
- 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: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- Global Covered Bond Insights Q1 2022, March 17, 2022
- Oberbank AG, Feb. 21, 2022

- Covered Bonds Outlook 2022: Performance Stable As Support Schemes Wind Down, Dec. 9, 2021
- S&P Global Ratings Definitions, Nov. 10, 2021
- Austrian Covered Bonds Harmonization Proposal Merges Three Laws Into One, June 10, 2021
- Transaction Update: Oberbank AG (Mortgage Covered Bond Program), March 23, 2021
- Glossary Of Covered Bond Terms, April 27, 2018