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Transaction Update: Oberbank AG (Mortgage Covered Bond Program)

Hypothekarisch fundierte Bankschuldverschreibungen

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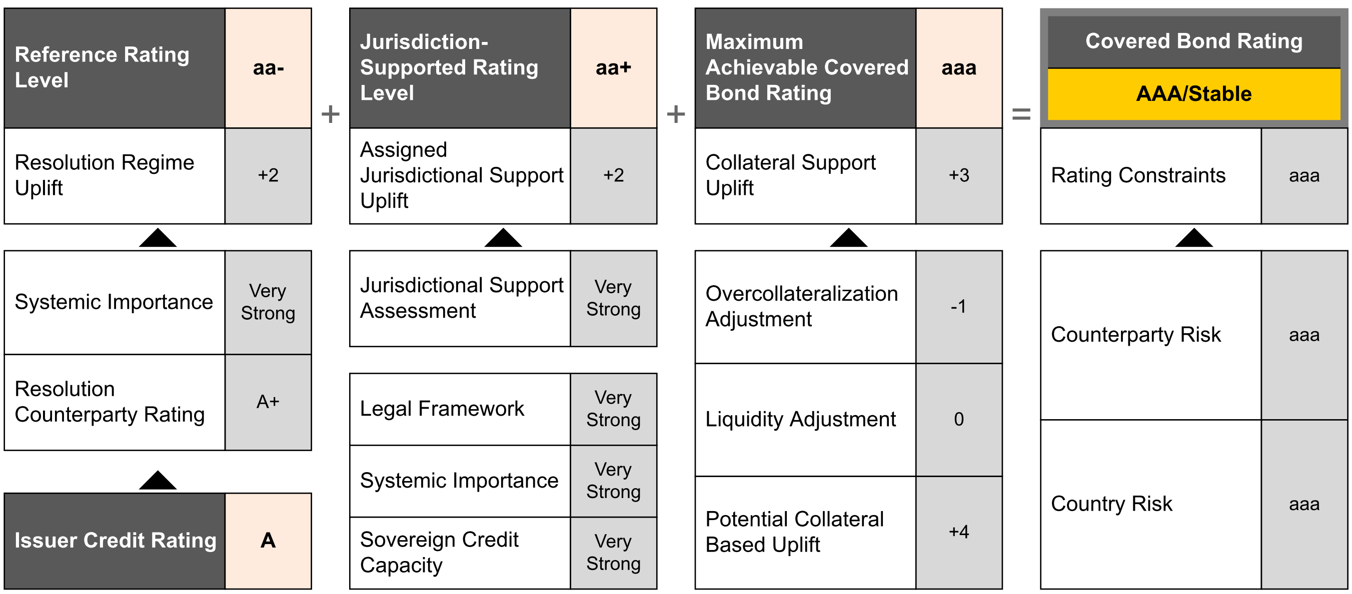
Ratings Detail



Major Rating Factors

Strengths

- Three unused notches provide buffer to the 'AAA' program rating.
- The cover pool diversifies risk across two jurisdictions and multiple sectors.

Weaknesses

- In the absence of a commitment to hold overcollateralization above the legal minimum level, the issuer may reduce it at its discretion to a level that does not support the covered bond ratings.
- The Austrian residential loan portfolio is concentrated in the State of Upper Austria.

Outlook: Stable

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

We would lower our covered bond ratings if we lowered the ICR by more than three notches or if the available credit enhancement became insufficient to support the 'AAA' covered bond ratings.

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 the articles referenced in the "Related Criteria" section.

Oberbank is domiciled in Austria, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). We consider that mortgage covered bonds have a very strong systemic importance to Austria. These factors increase the likelihood that Oberbank (A/Stable/A-1) 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. Under our covered bonds criteria, a very strong systemic importance means the reference rating level (RRL) is the maximum of (i) two notches above the long-term ICR and (ii) the resolution counterparty rating (RCR). Given our 'A+' RCR on Oberbank, the RRL is 'aa-', reflecting the two notches of uplift from the ICR.

We then consider the likelihood for the provision of jurisdictional support, which we assess as very strong for mortgage covered bonds in Austria, resulting in a potential jurisdictional support uplift from the RRL of up to three notches. However, the jurisdiction-supported rating (JRL) on the covered bonds cannot be higher than our long-term rating on the Austrian sovereign. Given our foreign currency long-term rating on Austria (AA+/Stable/A-1+), we can only assign two notches of jurisdictional support uplift above the RRL, resulting in 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 'aa+' JRL. We based our analysis on cover pool information and program level cash flows provided as of Dec. 31, 2024, and concluded that the available overcollateralization exceeds the credit enhancement commensurate with the 'AAA' covered bond rating.

Furthermore, the covered bonds have sufficient credit enhancement to qualify for the maximum four notches of potential collateral-based uplift under our covered bonds criteria. However, because overcollateralization is uncommitted, we reduce the potential uplift by one notch, resulting in two unused notches of collateral-support uplift. This, together with the one notch of unused jurisdictional support, results in a total rating cushion of three unused notches.

Legal, operational, counterparty, and sovereign risks do not constrain the 'AAA' covered bond ratings.

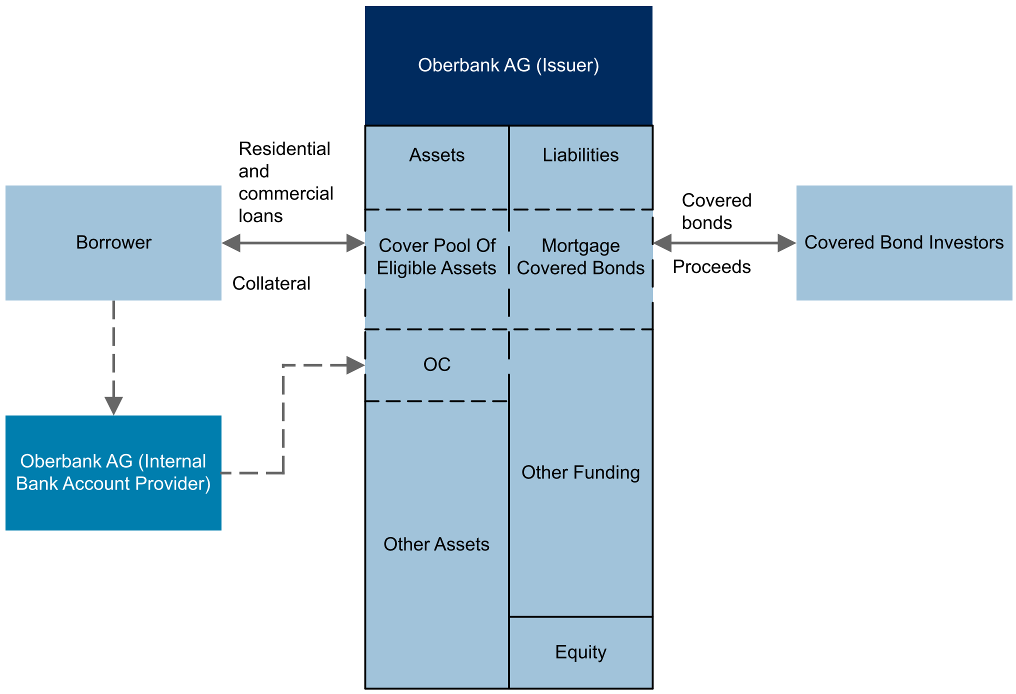
Program Description

Table 1

Program overview

	As of Dec. 31, 2024
Jurisdiction	Austria
Rating	AAA/Stable
Covered bond type	Legislation-enabled
Redemption profile	Hard and soft bullet
Cover pool (mil. €)	3,909
Outstanding covered bonds (mil. €)	2,752
Underlying assets	Residential mortgages and commercial mortgages in Austria and Germany
Assigned jurisdictional support uplift	2
Unused notches for jurisdictional support	1
Target credit enhancement (%)	20.98
Credit enhancement commensurate with current rating (%)	15.51
Available credit enhancement (%)	52.01
Available 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.

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. Its mortgage covered bond program refinances Austrian and German residential and commercial mortgages.

The covered bonds are issued under Oberbank's debt issuance program or by using stand-alone documentation. Cover pool assets and liabilities are euro denominated. About 47% of assets are variable-rate paying, while variable-pay liabilities account for about 30% of outstanding covered bonds.

The cover pool contains no derivatives.

Table 2

Program participants

Role	Name	Rating	Rating dependency
Issuer	Oberbank AG	A/Stable/A-1	Yes
Arranger	Oberbank AG	A/Stable/A-1	No

Table 2

Program participants (cont.)

Role	Name	Rating	Rating dependency
Originator/servicer	Oberbank AG	A/Stable/A-1	No
Bank account provider	Oberbank AG	A/Stable/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 Austrian Financial Market Authority (FMA) regulates and supervises the issuer.

The covered bonds constitute the issuer's direct and unsubordinated obligations and they 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, if the issuer becomes insolvent, to the assets in the cover pool register.

Since July 8, 2022, Oberbank's covered bonds are issued under the Austrian Covered Bond Act (CBA, "Pfandbriefgesetz"), which implements the EU's Covered Bonds Directive. Outstanding covered bonds prior to this date are grandfathered under the previous legislation (Austrian Law on Secured Bank Bonds ("Gesetz betreffend fundierte Bankschuldverschreibungen").

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

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

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

Borrowers have no right to set off any deposits they have with the issuer against their mortgages in the cover pool register. We understand that the prohibition of setoff is inapplicable to derivative contracts, when netting occurs for receivables arising under one and the same master agreement.

If the issuer becomes insolvent, a bankruptcy court, after consulting the Austrian FMA, will appoint a cover pool administrator to continue the cover pool's management and satisfy the covered bondholders' claims.

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

The cover pool assets' protection and the cover pool's continued management allow us to rate the covered bond program higher than the long-term ICR on Oberbank.

Operational and administrative risks

Our operational risk analysis follows the principles laid out in our covered bond ratings framework (see "Related Criteria").

We have reviewed the issuer's origination, underwriting, collection, and default management procedures, as well as the cover pool register's management and administration.

The residential mortgage loans are originated mainly through Oberbank's branches and to 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 originated subject to a maximum 90% LTV ratio, a 6x debt-to-income ratio, and a 30% debt service-to-income ratio. 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 and are typically repayment loans with borrowers paying monthly principal and interest installments. Repayment-free periods of up to five years from the start of the loan term are possible. The maximum interest rate fixation period is 15 years.

For commercial mortgages, the bank typically limits the LTV ratio, depending on the object type, 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 (BTL) properties with a €3 million loan size or more or long-term financings of housing cooperatives ("Wohnbaugenossenschaften").

In our opinion, no operational risk from the cover pool's management and loan origination would constrain the covered bond ratings. We also believe a potential replacement cover pool manager would be available if the issuer becomes insolvent. We consider Austria to be an established covered bond market and 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 modeled a stressed blended portfolio servicing fee of about 37 basis points (bps), which we believe is sufficient to attract a replacement servicer.

Resolution regime analysis

Our analysis considers any resolution regime in Austria to determine the RRL. The RRL on Oberbank's covered bonds, which is the starting point for any further uplift in our analysis, is 'aa-'.

To determine 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 covered bonds, allowing 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. 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 our sovereign rating on Austria, only two notches of jurisdictional support can be assigned. Therefore, the covered bonds have one unused notch for jurisdictional support.

Collateral support analysis

Our residential mortgage loans analysis is based on the specific adjustments defined for Austria and Germany under our global residential loans criteria and its Europe Supplement (see Criteria List).

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

We based our credit analysis on loan-by-loan data as of Dec. 31, 2024.

Since our previous review, the cover pool' s composition remained stable (see table 3). The residential and commercial assets in the pool are about evenly split. The residential mortgages' dominant share is Austrian, only 9% of them are backed by German properties. The commercial loans are split between Austrian and German assets. In terms of property types, multi-family homes represent the largest property share with close to one-quarter of commercial mortgages.

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. Furthermore, syndicated loans are not included in the cover pool.

Table 3

Cover pool composition

	As of Dec. 31, 2024		As of Dec. 31, 2023	
Asset type	**Cover pool balance (€)**	**Share (%)**	**Cover pool balance (€)**	**Share (%)**
Residential mortgages	2,047,812,712	52.39%	1,939,127,412	51.06%
Austria	1,865,820,657	47.73%	1,794,536,178	47.25%

Table 3

Cover pool composition (cont.)				
	As of Dec. 31, 2024		As of Dec. 31, 2023	
Asset type	**Cover pool balance (€)**	**Share (%)**	**Cover pool balance (€)**	**Share (%)**
Germany	181,992,055	4.66%	144,591,234	3.81%
Commercial mortgages*	1,861,191,453	47.61%	1,858,828,883	48.94%
Austria	1,138,655,756	29.13%	1,001,632,899	26.37%
Germany	722,535,697	18.48%	857,195,984	22.57%
Total cover pool	3,909,004,165	100.00%	3,797,956,295	100.00%

*Based on S&P Global Ratings' definitions.

We view both the residential and commercial portfolios as granular.

Most residential mortgages are granted for owner occupation, with a limited share of BTL properties (3.05%). The average residential loan has an effective 67% LTV ratio and about five years of seasoning. Most of the loans are amortizing with monthly principal and interest installments.

About two-thirds of the Austrian residential loans pay a fixed interest rate scheduled to switch to a floating rate at a future date (fixed-to-float interest rate). We apply a potential payment shock adjustment on these loans if the interest rate refix date is scheduled within five years from our analysis.

The CRE portfolio is diversified across various industries and two jurisdictions. The dominant share of these assets (23%) comprises multifamily home exposures, which we view as less risky than traditional CRE. Under our CRE criteria, exposures to housing cooperatives ("Wohnbaugenossenschaften") are classified as commercial properties. Most CRE assets (52.10%) are in Upper Austria, Vienna, and Bavaria. The CRE portfolio is not materially exposed to industry or geographic concentration risk.

Our pool credit analysis estimated each loan's foreclosure frequency and loss severity. To quantify the entire cover pool's potential losses, 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 foreclosure probability is a function of both borrower and loan characteristics, and that foreclosure will become more likely--and the realized loss on a loan more severe--as the economic environment deteriorates.

As of Dec. 31, 2024, at a 'AAA' stress level, the WAFF and WALS for the combined pool of Austrian and German residential mortgages are 15.48% (14.66% previously) and 24.61% (25.25% previously), respectively. The higher WAFF in the combined residential portfolio is mainly due to higher effective LTV ratios and higher share of loans subject to potential payment shock in the Austrian loan portfolio. On the other hand, the effective LTV on the German assets decreased and seasoning increased in both jurisdictions. These two factors mitigated the above negative impact on the WAFF.

We have updated our overvaluation assessment for the Austrian and German residential real estate markets, reflecting the house price and income movements observed since our previous update as well as our forward-looking expectations. In our view, the Austrian residential property market currently shows 25% overvaluation, compared with 40% in our previous review. We estimate 5% overvaluation in the German residential market (21% in our previous review). The lower WALS is primarily due to our revised assumption on the overvaluation in both residential markets (see: "House Price Overvaluation Moderates For Europe's RMBS And Covered Bond Markets", published on Jan. 20, 2025.

For the Austrian and German commercial pool, the combined WAFF is 33.35% (31.10% previously) and the WALS is 50.99% (49.23% previously). These figures increased mainly due to higher LTV ratios in the CRE portfolio. Also, the share of multi-family homes, on which we assume lower default rate than on standard commercial mortgages, decreased.

For the entire cover pool of Austrian and German residential and commercial mortgage loans, our WAFF is 24.20% (23.05% previously) and 37.47% (37.49% previously).

Table 4

Key credit metrics

	As of Dec. 31, 2024	As of Dec. 31, 2023
Residential mortgages		
Weighted-average effective LTV ratio (%)*	68.11	62.58
Weighted-average cover pool LTV ratio (%)	49.89	42.75
Weighted-average loan seasoning (months)§	55.75	51.12
Balance of loans in arrears (%)	0.16	0.00
Highest geographic concentration in Austria (region, %)	Upper Austria, 46.81	Upper Austria, 46.60
Highest geographic concentration in Germany (region, %)	Bavaria, 56.38	Bavaria, 70.77
Residential mortgages credit analysis results		
WAFF (%)	15.48	14.66
WALS (%)	24.61	25.25
Commercial mortgages		
Weighted-average whole-loan LTV ratio (%)	69.96	60.02
Weighted-average cover pool LTV ratio (%)	53.77	49.23
Commercial mortgages credit analysis results		
WAFF (%)	33.35	31.10
WALS (%)	50.99	49.23
Combined mortgage pool credit analysis results		
WAFF (%)	24.20	23.05
WALS (%)	37.47	37.49
'AAA' credit risk (%)	10.04	6.88

*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. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Table 5

Loan-to-value ratios

	As of Dec. 31, 2024	As of Dec. 31, 2023
WAFF-effective LTV/whole LTV ratios (%)		
Residential mortgages - effective LTV ratios (%)		
0-40	17.38	23.14
40-50	12.05	12.17
50-60	15.30	14.16
60-70	13.98	13.50
70-80	14.31	14.16
80-90	11.39	10.89
90-100	8.07	6.16
>100	7.52	5.82
Weighted-average effective LTV ratio	68.11	62.58
Commercial mortgages - whole LTV ratios (%)		
0-40	21.51	29.49
40-50	9.76	11.1
50-60	13.13	9.76
60-70	19.43	19.83
70-80	10.73	12.37
80-90	10.61	7.88
90-100	5.06	3.95
>100	9.76	5.62
Weighted-average whole loan LTV ratio	69.96	60.02
WALS-cover pool LTV ratios (%)	53.77	49.23
Residential mortgages – cover pool LTV ratios after HPI (%)		
0-40	39.47	49.40
40-50	14.21	15.06
50-60	14.99	13.80
60-70	12.20	10.23
70-80	11.08	8.18
80-90	4.24	1.77
90-100	1.98	0.50
>100	1.82	0.61
Weighted-average cover pool LTV ratio	49.89	42.75
Commercial mortgages – cover pool LTV ratios (%)		
0-40	29.9	32.11
40-50	12.48	12.15
50-60	33.91	32.52
60-70	8.51	8.83
70-80	10.44	11.55
80-90	1.43	0.42
90-100	0.29	1.06

Table 5

Loan-to-value ratios (cont.)		
>100	3.04	1.36
Weighted-average cover pool LTV ratio	53.77	49.23

WAFF--Weighted-average foreclosure frequency. LTV--loan-to-value. WALS--Weighted-average loss severity. HPI--House price index.

Table 6

Residential loan seasoning distribution*		
	As of Dec. 31, 2024	**As of Dec. 31, 2023**
	% of current residential loan balance	
<=5 years	63.38	69.98
>5 and <=6 years	10.70	7.42
>6 and <=7 years	6.02	6.04
>7 and <=8 years	5.29	4.60
>8 and <=9 years	4.18	3.88
>9 and <=10 years	3.60	2.87
>10 years	6.84	5.22
Weighted-average residential loan seasoning (months)	55.75	51.12

*Seasoning refers to the elapsed loan term.

Table 7

Geographic distribution of loan assets				
	As of Dec. 31, 2024		**As of Dec. 31, 2023**	
	% of current residential loan balance	**% of current commercial loan balance**	**% of current residential loan balance**	**% of current commercial loan balance**
Austria	100	100	100	100
Burgenland	1.42	0.39	1.62	0.44
Carinthia (Kaernten)	0.76	0.70	0.95	0.74
Lower Austria (Niederoesterreich)	19.41	17.97	19.99	17.34
Upper Austria (Oberoesterreich)	46.81	26.79	46.6	26.37
Salzburg	10.09	11.04	9.98	10.21
Styria (Steiermark)	3.01	4.38	2.94	4.22
Tyrol (Tirol)	1.35	1.96	1.52	2.50
Vorarlberg	0.08	0.10	0.1	0.11
Vienna (Wien)	17.06	36.69	16.3	38.04
Germany	100	100	100	100
Baden-Wuerttemberg	5.75	5.56	6.17	4.84
Bavaria (Bayern)	56.38	33.74	70.77	38.00
Berlin	2.22	20.58	3.01	17.51
Brandenburg	2.07	0.78	0.78	0.39
Hamburg	1.95	0	2.28	0
Hesse	3.11	7.08	2.88	8.76
Lower Saxony (Niedersachsen)	0.06	3.06	0.07	5.74
Mecklenburg-Vorpommern	0.33	0.03	0.40	0.02

Table 7

Geographic distribution of loan assets (cont.)				
North Rhine-Westphalia (Nordrhein-Westfalen)	0.85	5.30	2.09	4.00
Rhineland-Palatinate (Rheinland-Pfalz)	0.03	0.68	0.21	0.61
Saxony (Sachsen)	5.42	16.45	7.74	12.17
Saxony-Anhalt	19.63	2.77	1.39	2.61
Schleswig-Holstein	0.87	1.49	0.39	3.26
Thuringia	1.32	2.48	1.81	2.13

For our cash flow analysis, we have determined a weighted-average recovery period of two years for the mortgage loans in the cover pool. In addition, we have calculated a stressed refinancing spread for the cover pool of 710 bps (719 bps previously).

We stress the cover pool's cash flows--incorporating among other factors, various default patterns, default timings, various interest rate stresses, prepayment rates, and delinquency assumptions--to determine whether the cash flows from the assets suffice, at a 'AAA' rating level, to make timely payment of interest and ultimate payment of principal on the covered bonds.

About 47% of the assets and 30% of liabilities pay a floating interest rate. The cover pool register does not include derivatives to mitigate interest rate risk arising from differences in interest payable on the assets versus the interest received on the liabilities. We have considered interest rate risk 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 a percentage of the higher-yielding loans exit the portfolio.

By applying our credit and cash flow stresses, we calculated a 'AAA' credit risk of 10.04% (6.88% previously) and a target credit enhancement (TCE) of 20.98% (14.01% previously). The higher 'AAA' credit risk stems mainly from two sources: We calculated higher required loss protection (WAFF x WALS) on the portfolio and excess spread in the program decreased. As more assets than covered bonds are tied to a variable interest rate, decreasing market interest rates during the past year had a negative impact on the program's cash flows. In addition to these two factors, higher asset-liability maturity mismatch also contributed to the increase in TCE. About 31% of the outstanding covered bonds are due for repayment within the upcoming 18 months, compared with 1% in our previous review.

In our view, Austria has an active secondary mortgage market. As a result, the program can benefit from up to four notches of collateral-based uplift according to our covered bonds criteria. The issuer does not commit to maintaining overcollateralization in the program that exceeds the legal minimum requirement, to support the covered bond ratings. Consequently, the maximum potential collateral-based uplift is reduced by one notch.

The previous covered bond legislation did not specify a minimum liquidity requirement that the issuer must maintain. Consequently, the legislation on grandfathered covered bonds lacks liquidity provisions. Therefore, we generally adjust the maximum achievable uplift for covered bonds issued under this framework due to the absence of liquidity provision. This does not apply to Oberbank's covered bonds because in our sovereign risk analysis, we already limit the number of notches of uplift above the long-term sovereign rating if refinancing risk remains unaddressed.

The available credit enhancement exceeds the target credit enhancement commensurate with the maximum potential collateral-based uplift (see table 8). The covered bonds use one notch to achieve a 'AAA' rating resulting in two unused notches of collateral support, which together with one unused notch of jurisdictional support, would protect the covered bond ratings if we were to downgrade the issuer by up to three notches, all else being equal.

Table 8

Collateral uplift metrics

	As of Dec. 31, 2024	As of Dec. 31, 2023
Asset WAM (years)	9.50	9.68
Liability WAM (years)	5.44	6.06
Maturity gap (years)	4.06	3.62
Available credit enhancement (%)	52.01	63.24
'AAA' credit risk (%)	10.04	6.88
Required credit enhancement for first notch of collateral uplift (%)	12.78	8.66
Required credit enhancement for second notch of collateral uplift (%)	15.51	10.45
Required credit enhancement for third notch of collateral uplift (%)	18.25	12.23
Target credit enhancement for maximum uplift (%)	20.98	14.01
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral support uplift (notches)	3	3

WAM--Weighted-average maturity.

Counterparty risk

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

Oberbank is the bank account provider for the covered bond program, potentially exposing investors to bank account and commingling risk.

Bank account risk. The program has no external bank account provider and bank account agreement; therefore, no replacement language applies to the internal bank account. In these cases, the commingling risk analysis captures the risk of funds' loss due to account bank insolvency.

Commingling risk. Commingling risk in the covered bond program arises where cash collections received from the cover pool assets shortly before the issuer's insolvency are not reinvested in the cover pool assets, and therefore could be lost through commingling with the bank's other cash.

In the absence of legal comfort or structural mitigants and considering the issuer's monthly overcollateralization reporting, we took commingling risk into account when determining the required credit enhancement by assuming half-month of commingling risk within the quarter showing the highest cash inflows. This corresponds to the average cash exposure in that month that may accumulate in the collection account immediately before the issuer's insolvency, in our view. No derivatives are registered in the cover pool. We model any interest rate risk in our cash flow model.

Sovereign risk

We analyze sovereign risk under our structured finance sovereign risk criteria (see "Related Criteria").

This is a multi-jurisdictional pool of residential and commercial mortgage loans. The issuer is in Austria, which is part of a monetary union, The covered bonds are a mix of hard- and soft-bullet maturities. The hard-bullet bonds have no structural coverage of refinancing needs over a 12-month period. Therefore, the covered bonds exhibit moderate sensitivity to country risk and can be rated up to four notches above our sovereign rating on Austria.

Furthermore, given the long-term sovereign ratings on Austria and Germany of 'AA+' and 'AAA', respectively, the supplemental tests--largest sovereign test and largest transfer and convertibility test--do not apply.

As a result, sovereign default risk does not constrain the covered bond program rating.

Environmental, Social, And Governance

Oberbank's sustainable mortgage lending mainly focuses on financing energy-efficient buildings, renewable energy, and non-profit housing. In our analysis, environmental and social credit considerations are neutral factors whereas governance factors form a moderately negative consideration. The issuer has not committed to maintain a minimum overcollateralization level in the program, which increases the risk that the current credit enhancement level may not be maintained over time. Therefore, we reduce the number of unused notches of uplift by one.

Related Criteria

- Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement, April 4, 2024
- 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
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