

Scope affirms AAA rating of Wüstenrot's Austrian mortgage-covered bonds, with Stable Outlook

The issuer's credit strength combined with governance and cover pool support result in the highest rating. Market risks are moderate. Sound credit quality of the cover pool with granular, low loan-to-value domestic residential mortgage secured loans.

Rating action

Scope Ratings GmbH (Scope) has today affirmed its AAA/Stable ratings on the Austrian covered bonds (Hypothekendarlehenbriefe) issued by Salzburg-based Bausparkasse Wüstenrot AG (Wüstenrot). The Outlook remains Stable.

Rating rationale

Issuer rating (positive). Wüstenrot's credit quality¹ reflects its low-risk business profile, moderate but stable profitability and adequate capitalisation.

Cover pool support (positive). Cover pool support³ is the primary rating driver and adds at least seven notches of uplift. It factors the following rating considerations:

- Cover pool complexity category (positive)**. Scope assigns a cover pool complexity category of 'Low' to the interplay between complexity and transparency. This allows for a maximum additional cover pool support uplift of three notches on top of the governance uplift of which only two are currently needed to achieve highest ratings (ESG factor).
- Overcollateralisation (positive)**. The 29.1% of overcollateralisation as of 31 December 2023, on an eligible-loan basis, shields the covered bonds from market and credit risks. It is well above the unchanged 6.0% of overcollateralisation that supports the two-notch cover pool-based uplift.
- Sound credit quality (positive)**. The cover pool solely comprises residential and domestic cover assets with a low averaged unindexed eligible loan-to-value ratio of about 57.0%.
- Market risks (neutral)**. Mismatches are moderate. The programme remains exposed to low interest rates, reflecting a 20% share of floating-rate assets and 80% fixed loans with interest reset dates prior to final legal maturity. This compares to 2.8% of floating-rate covered bonds. Further, a weighted average life of 6.8 years for the bonds compares to 12.5 years of the asset portfolio, exposing the programme against asset sales under discount. No currency risk is present as all assets and bonds are

denominated in EUR. The programme is most sensitive to high prepayments as these factors together result in a reduction of excess spread and significant costs of carry.

Governance support (positive). The strength of the Austrian legal covered bond and resolution framework² supports up to five notches of uplift above the issuer rating. This effectively provides a floor against deterioration in the cover pool's credit quality (ESG factor).

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

Rating-change drivers

Scope's Stable Outlook on the mortgage-covered bonds reflects a rating buffer from unused cover pool support. The rating could be downgraded upon: i) more than one notch of deterioration in Scope's view on the credit quality of the issuer; ii) a deterioration in Scope's view on governance support factors (ESG factor) relevant to the issuer and Austrian mortgage-covered bonds in general as well as on the interplay between complexity and transparency (ESG factor); and/or iii) an inability of the cover pool to provide additional rating uplift.

Quantitative analysis and assumptions

Scope's projections of defaults on Wüstenrot's mortgage loans use an inverse Gaussian distribution. Scope derived an effective lifetime mean default rate of 7.5% and coefficient of variation of 50%, based on internal loan-by-loan risk assessments provided by the bank and benchmarking.

Scope's recovery rate calculations reflect rating distance-dependent market value declines as well as the agency's assumptions regarding the Austrian housing market and its unique characteristics. Scope's stressed security values range between 47.5% and 67.5% depending on the property's location. This results in recovery rates of 87.6% in the most stressed scenario.

Credit risk only accounts for an unchanged 2 pp of the 6.0% of supporting overcollateralisation, reflecting the low-risk nature of the fully residential mortgage cover pool.

Scope used the resulting loss distribution and default timing to project the covered bond programme's losses and reflect its amortisation structure. The analysis also incorporated the impact of rating distance-dependent interest rate stresses.

Market risk accounts for an unchanged 4 pp of the 6% supporting overcollateralisation. The covered bond programme is most sensitive to a 'lower for longer' scenario, in which interest rates drop to negative 1% after two years and remain at that rate until the last bond has been repaid. This reflects the interest rate mismatch, with 97.2% of fixed-rate covered bonds versus 80% of fixed-rate cover assets, most of which have an interest reset prior to final maturity. This mismatch is further amplified under high prepayments (15%) reducing the weighted average life of cover assets to around five years (from 12.5 years) with the effect, that the generated cash accrue on the short-term (negative) market rates.

To calculate the cover pool's net present value in the event of an asset sale, a refinancing premium of 150 bps for Austrian residential mortgage loans was added to the rating distance- and scenario-dependent discount curve.

The analysis applies asset type-specific servicing fees paid annually by the cover pool. For residential

mortgage loans, Scope assumed a servicing fee of 25 bps. Scope further assumed a recovery period of 30 months for residential mortgage loans in Austria.

The programme's sensitivity was also tested to reinforce its supporting overcollateralisation, specifically, to alternative interest rate scenarios, lower asset margins, loan refinancing at current fixed spot rates and frontloaded defaults.

Rating driver references

1. Wüstenrot – private issuer rating (Confidential)
2. [Governance support assessment for Austria](#)
3. Confidential quarterly cover pool reporting

Stress testing

No stress testing was performed.

Cash flow analysis

The Credit Rating uplift is based on a cash flow analysis using Scope Ratings' covered bond model (Covered Bonds Expected Loss Model Version 1.1). The model applies Credit Rating distance-dependent stresses to scheduled cash flows to simulate the impact of increasing credit and market risks. The model outcome is the expected loss for a given level of overcollateralisation.

Methodology

The methodology used for this Credit Rating and Outlook, (Covered Bond Rating Methodology, 24 May 2023), is available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The model used for this Credit Rating and Outlook is (Covered Bonds Expected Loss Model Version 1.1), available in Scope Ratings' list of models, published under <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

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

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

Solicitation, key sources and quality of information

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

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

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

Regulatory disclosures

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

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The Credit Rating/Outlook was first released by Scope Ratings on 6 April 2017. The Credit Rating/Outlook was last updated on 10 May 2023.

Potential conflicts

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