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Transaction Update: Oberoesterreichische Landesbank AG (Public Sector Covered Bond Program)

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Table Of Contents

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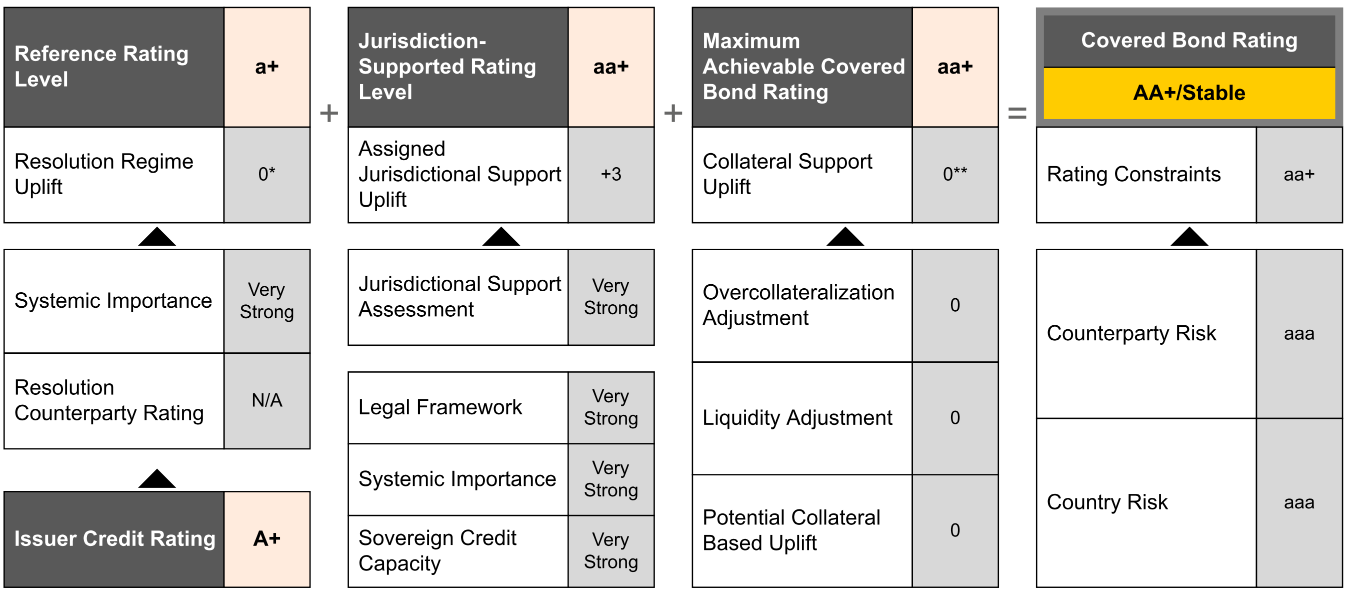
Ratings Detail



*We do not elevate the reference rating level above the issuer credit rating (ICR) on the issuing bank because the expectation of external government support is already incorporated into the ICR. N/A--Not applicable.
**The program does not benefit from collateral-based uplift due to the high concentration of cover pool assets within Upper Austria.

Major Rating Factors

Strengths

- The 'A+' issuer credit rating (ICR) on Oberoesterreichische Landesbank (HYPO OOE) is the starting point of our analysis and reflects the high likelihood of timely and sufficient extraordinary support from Upper Austria in the event of financial stress.
- Due to our very strong jurisdictional support assessment for public sector covered bonds in Austria, the program achieves a 'AA+' rating without any collateral support.

Weaknesses

- Due to a very high obligor concentration in the cover pool, the program does not benefit from collateral-based uplift.
- There are no unused notches of ratings uplift to protect the ratings on the covered bonds if we were to lower the ICR on HYPO OOE.

Outlook: Stable

The stable outlook on our covered bond ratings reflects the stable outlook on our long-term ICR on HYPO OOE and the stable outlook on our long-term rating on Austria. A negative rating action on the issuer and/or Austria's sovereign rating will result in a negative rating action on the covered bonds.

Rationale

This transaction update follows our periodic review of HYPO OOE's public sector covered bond program and related issuances.

Our covered bond ratings process follows the methodology and assumptions outlined in our covered bonds criteria, and our covered bond ratings framework criteria (see "Related Criteria").

HYPO OOE's public sector covered bond program is governed by the Austrian Covered Bond Act (CBA). Covered bonds issued before July 8, 2022 are grandfathered under the previous legislation.

We consider the Austrian legal and regulatory framework to effectively isolate the cover pool assets for the covered bondholders' benefit. This asset isolation allows us to potentially assign a higher rating to the covered bonds than the long-term ICR on HYPO OOE.

The reference rating level (RRL) on the covered bonds is 'a+' equal to the ICR on HYPO OOE. We have not raised the RRL above the ICR because the ICR already incorporates our expectation of extraordinary support from the government of Upper Austria if needed.

We considered the likelihood for the provision of jurisdictional support, which for public sector covered bond programs in Austria is very strong in our view allowing up to three notches of uplift from the RRL. The jurisdiction-supported rating level (JRL) on the covered bonds cannot exceed our long-term rating on the Austrian sovereign. As we rate Austria at 'AA+', the program benefits from all three available notches of jurisdiction-supported uplift resulting in a JRL of 'aa+'.

The cover pool is highly concentrated with almost exclusive exposure to the state of Upper Austria (AA+/Stable/A-1+) via a small number of obligors. Therefore, we do not expect the cover pool to add value to the program above the creditworthiness of Upper Austria. Furthermore, in our analysis we do not give benefit to the cover pool in raising the ratings on the covered bonds above the JRL.

The 'AA+' ratings on the covered bonds are not constrained by legal, operational, counterparty, or sovereign risks.

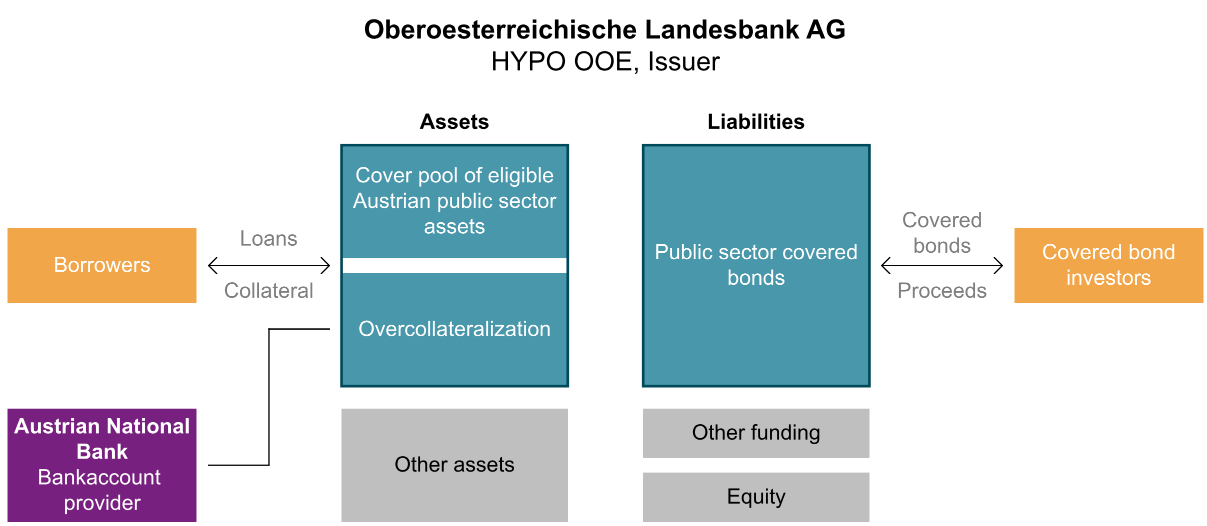
Program Description

Table 1

Program overview*	
Jurisdiction	Austria
Covered bond type	Legislation-enabled
Cover pool assets (Mil. €)	623.39
Outstanding covered bonds (Mil. €)	490.50
Redemption profile	Hard bullet
Underlying assets	Public sector
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	Not relevant
Credit enhancement commensurate with current rating (%)	2.00§
Available overcollateralization (%)	27.09

*As of Dec. 31, 2023. §We expect the program to cover the legal minimum of 2% overcollateralization.

Program structure



Source:S&P Global Ratings

HYPO OOE is a small commercial bank in Upper Austria with a strong focus on its home state. The bank carries out state-related banking services, with a dominant focus on niche segments in Upper Austria, mainly public-sector lending and related real estate financing, promotion of subsidized housing programs, and residential mortgages, as well as financing of medical services and corporations. The bank's main shareholders are the State of Upper Austria (51%) and Raiffeisenlandesbank Oberoesterreich AG (41%). HYPO OOE operates primarily in its core region of Upper Austria, with a modest market share of about 1.5% nationwide.

The issuer maintains two covered bond programs: this public sector program and a mortgage-backed program that we rate at 'AA+/Stable'. The issuer covers about 40% of its funding needs via covered bonds.

We consider HYPO OOE to be a government-related entity (GRE) with a high likelihood of receiving timely and sufficient extraordinary government support from the state of Upper Austria if needed.

The covered bonds constitute senior secured unsubordinated obligations, ranking pari passu with other obligations secured by the cover pool register and are governed by the Austrian Covered Bond Act. All covered bonds are issued with a hard-bullet maturity.

As of Dec. 31, 2023, HYPO OOE had €490.50 million covered bonds backed by a cover pool register of €623.39 million of loans to the Austrian public sector. The available overcollateralization is 27.09%.

Table 2

Program participants

Role	Name	Rating	Rating dependency
Issuer	Oberoesterreichische Landesbank AG	A+/Stable/A-1	Yes
Account provider	Austrian National Bank	NR	Yes
Servicer	Oberoesterreichische Landesbank AG	A+/Stable/A-1	No
Originator	Oberoesterreichische Landesbank AG	A+/Stable/A-1	No

NR--not rated.

Rating Analysis

Legal and regulatory risks

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

HYPO OOE's public sector covered bond program and related issuances are governed by the Austrian Covered Bond Act (CBA) (BGBl. I Nr. 199/2021). The CBA implemented the EU's Covered Bonds Directive and entered into force on July 8, 2022. The CBA merged three laws in force prior to July 8, 2022 ("Hypothekenbankgesetz", "Pfandbriefgesetz", and the "Gesetz betreffend fundierte Bankschuldverschreibungen") into one, lessening the legal complexity for Austrian covered bonds.

Covered bonds issued before July 8, 2022 are not required to fulfill the requirements of the Austrian CBA, and are grandfathered with their original designation ("österreichische Gesetz vom 21. Dezember 1927 über die Schuldverschreibungen und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten (dRGBl. I S 492/1927 idgF, Pfandbriefgesetz).

Currently, six outstanding covered bonds (14.68% of outstanding bond balance) are issued out of HYPO OOE public sector program since the implementation of the CBA.

The issuer holds the cover pool assets on its balance sheet. This means that the covered bonds are an unconditional obligation of the issuer, rather than a direct claim (solely) on the cover pool assets. The public sector covered bonds rank pari passu among themselves and with all other obligations secured by the cover pool register. If the issuer becomes insolvent, the cover pool assets will form a pool separate from the issuer's other assets, and a special cover pool administrator will be appointed to manage the cover pool assets. The covered bondholders have a preferential claim on the cover pool assets.

For bonds issued under the CBA, the law includes--among others--a 180-day liquidity buffer requirement, a 2% minimum nominal 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 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.

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

From our analysis, we have concluded that the Austrian covered bond law addresses the main legal aspects we assess in a covered bond legislation. The cover pool register is effectively isolated from the insolvency estate of the issuer for the benefit of the covered bondholders. Upon issuer insolvency, following consultation with the Austrian regulator (FMA), a cover pool administrator is appointed by a bankruptcy court to continue the management of the cover pool and to satisfy the claims of the covered bondholders. 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 our long-term ICR on HYPO OOE.

Operational and administrative risks

Our analysis of operational risk follows the principles laid out in our covered bonds rating framework and our covered bonds criteria. We have considered the procedures the issuing bank used to originate and monitor the cover pool assets.

In our opinion, no operational risk from the cover pool's management and loan origination would constrain the covered bond ratings to the same level as the ICR on HYPO OOE.

We believe that a replacement cover pool manager would be available to manage the cover pool if the issuer were to become insolvent. We consider Austria to be an established covered bond market and the public sector assets in HYPO OOE cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers or servicers.

Overall, we believe sufficiently prudent underwriting and servicing procedures are in place to support our covered bond ratings. Therefore, in our view, the ratings are not constrained by operational risk.

Resolution regime analysis

Our analysis considers Austria's resolution regime to determine the RRL. The RRL on the issuer, which is the starting point for any further uplift in our analysis, is 'a+'.

We expect the law to exempt Austrian covered bonds from bail-in risk if a bank resolution occurs. However, we view the issuer as a GRE and incorporate potential extraordinary support from the government of Upper Austria in the ICR. Therefore, the resulting RRL equals the ICR ('A+').

Jurisdictional support analysis

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market.

Based on a very strong jurisdictional support assessment for public sector programs in Austria, the covered bonds can receive up to three notches of uplift from the RRL. The rating level achieved based on jurisdictional support (JRL) is capped at the foreign currency rating on Austria. Given our 'AA+' long-term rating on Austria, we assigned all three available notches of jurisdictional support uplift from the RRL. Therefore, we assess the JRL as 'aa+'. The program does not benefit from any unused notches of jurisdictional support uplift.

Collateral support analysis

HYPO OOE's public sector cover pool is a highly concentrated portfolio of Austrian public sector entities: the top three obligors make up close to three-quarters of the cover pool. The cover pool assets are almost exclusively related to Upper Austria (AA+/Stable/A-1+), the issuer's majority owner. Our rating on Upper Austria ('AA+') equals the jurisdictional supported rating level on the program.

Given the cover pool's low granularity and the strong correlation of the assets to Upper Austria, we do not assign collateral-based uplift in our ratings analysis.

As the JRL on the program is 'aa+', we do not give benefit to the collateral pool and do not raise the rating above the JRL.

Table 3

Cover pool main characteristics	
As of Dec. 31, 2023	
Outstanding balance (EUR)	623,387,246
Geographic location (country, %)	Austria, 100
Amortizing (%)	82.15
Remaining weighted-average life (years)	26.95
Largest obligor (%)	50.76
Top 5 obligors (%)	80.22

Table 4

Collateral support metrics*	
Asset weighted-average maturity (years)	8.45
Liability weighted-average maturity (years)	8.46
Maturity gap (years)	(0.01)

Table 4

Collateral support metrics* (cont.)	
Currency denomination of the assets	100% euro
Currency denomination of the liabilities	100% euro
Fixed/floating assets (%)	16.82/83.18
Fixed/floating liabilities (%)	99.39/0.61
Available credit enhancement (%)	27.09
Market value risk (%)	Not relevant
Target credit enhancement (%)	Not relevant
Asset default risk (%)	Not relevant
OC consistent with current rating	2.00§
Collateral based uplift (notches)	0.00

*As of Dec. 31, 2023. §We expect the program to cover the legal minimum of 2% overcollateralization.

Counterparty risk

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

The ratings on the program and related issuances are not constrained by counterparty risks.

Bank account risk

Cover pool related inflows enter dedicated accounts with Austrian National Bank (OENB), the only account provider for the program. Absent any mitigating factors, we cap our rating on the program at our assessment of Austrian National Bank's creditworthiness. This cap does not limit the rating on the covered bond program.

Commingling risk

Based on our review of the Austrian covered bond legislation, we understand collections from the cover pool assets received after the issuer's bankruptcy--upon which the court will appoint a special administrator before consultation with the Austrian FSA (Finanzmarktaufsicht, FMA) to manage the assets--would form part of the separate cover pool estate (Sondermasse). Therefore, these assets would not be available to the issuer's general creditors. Collections received before issuer bankruptcy would not necessarily form part of the Sondermasse and would be exposed to commingling risk.

Our analysis of this risk therefore focuses on determining the maximum amount of cash that could be received before insolvency and not reinvested in cover pool assets ("commingling loss"). The cover pool dedicated cash flows are swept from the collection account at HYPO OOE daily to the issuer's account held with OENB. The issuer is a GRE and we currently do not rate the product above the government (jurisdiction) support. Therefore, we consider commingling risk to be sufficiently mitigated at the current rating level.

Derivatives

The cover pool contains no derivatives. Assets and liabilities are denominated in euro. The weighted-average scheduled maturity on the bonds closely matches that on the assets. Most assets pay variable interest rates while most bonds pay a fixed interest rate, exposing the program to interest rate risk. While such mismatch is not mitigated by derivative agreements, we currently do not assign collateral-based uplift in our analysis, and therefore these risks do not affect our analysis.

Sovereign risk

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

This is a single-jurisdictional pool of public sector assets. The issuer is located in Austria, which is part of a monetary union. The outstanding covered bonds are hard bullet and have no structural coverage of refinancing needs for at least 12-month period. As a result, we can rate these covered bonds up to two notches above the sovereign rating. Given our 'AA+' long-term rating on Austria, sovereign risk does not currently constrain our 'AA+' ratings on the covered bonds.

Environmental, social, and governance

Our ratings on HYPO OOE's public sector covered bonds do not incorporate any collateral-based uplift. Consequently, we consider that environmental and social credit considerations have a neutral effect on the analysis of HYPO OOE's cover pool. The program is governed by the Austrian Covered Bond Act. While the CBA introduced a 180-day liquidity buffer requirement for bonds issued after July 8, 2022, the legislation on grandfathered covered bonds lacks liquidity provisions. HYPO OOE is not committed to maintain overcollateralization in the program that is commensurate with the current rating. We generally adjust the maximum achievable uplift for covered bonds issued under this framework due to the absence of liquidity provision and overcollateralization commitment. These considerations do not affect HYPO OOE's covered bonds because our rating on the program does not consider any collateral-support.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- 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
- 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: Covered Bonds Criteria , Dec. 9, 2014
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Global Covered Bond Insights Q1 2024, Dec. 15, 2023
- Covered Bonds Outlook 2024: Stability Amid Turbulence, Dec. 11, 2023
- S&P Global Ratings Definitions, June 9, 2023

- New Issue: Oberoesterreichische Landesbank AG (Public Sector Covered Bond Program), March 23, 2023
- Upper Austria (State of), May 22, 2023
- Oberoesterreichische Landesbank AG, March 14, 2023
- Glossary Of Covered Bond Terms, April 27, 2018