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Transaction Update: Oberoesterreichische Landesbank AG Mortgage Covered Bond Program

Hypotheken Pfandbriefe

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Ratings Detail

Reference Rating Level	a+
Resolution Regime Uplift	0*
Systemic Importance	Very Strong
Resolution Counterparty Rating	N/A
Issuer Credit Rating	A+

+

Jurisdiction-Supported Rating Level	aa+
Assigned Jurisdictional Support Uplift	+3
Jurisdictional Support Assessment	Very Strong
Legal Framework	Very Strong
Systemic Importance	Very Strong
Sovereign Credit Capacity	Very Strong

+

Maximum Achievable Covered Bond Rating	aa+
Collateral Support Uplift	0
Overcollateralization Adjustment	0
Liquidity Adjustment	-1
Potential Collateral Based Uplift	+4

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Covered Bond Rating	
AA+/Stable	
Rating Constraints	aa+
Counterparty Risk	aaa
Country Risk	aaa

*We do not elevate the reference rating level above the issuing bank's issuer credit rating (ICR) because the expectation of external government support is already incorporated into the ICR. N/A--Not applicable.

Major Rating Factors

Strengths

- Very strong jurisdictional support assessment for mortgages in Austria enables the program to reach a 'AA+' rating without any collateral support.
- The issuer's public commitment to the current rating supports a stable outlook on the rating with low overcollateralization requirement.

Weaknesses

- High asset concentration in the State of Upper Austria.
- The lack of loan-by-loan data reduces transparency in the collateral analysis.

Outlook: Stable

The stable outlook on the covered bonds ratings reflects the issuer's commitment to the current rating.

In the absence of any unused notches to the rating, the outlook on the covered bonds typically reflects the outlook on the issuer (Oberoesterreichische Landesbank AG, HYPO OOE, A+/Negative/A-1). However, the issuer has publicly committed to maintain the level of overcollateralization that in line with the current 'AA+' rating level for the covered bonds. Therefore, the overcollateralization commitment supports the stable outlook on the program.

Rationale

We are publishing this transaction update as part of our periodic review of Hypo OOE's covered bond program and related issuances.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

Our ratings reflect our reference rating level (RRL) of 'a+' and a jurisdiction-supported rating level (JRL) of 'aa+. The program does not benefit from collateral-based uplift because there is no commitment to maintain sufficient overcollateralization in the program that would support a rating above the current 'aa+'.

Under our resolution regime analysis, we determined an RRL of 'a+'. The issuer is domiciled in Austria, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). This fact and our very strong assessment of the systemic importance of mortgage covered bonds in Austria would generally enable the program to benefit from up to two notches of uplift above the issuer credit rating (ICR) on the issuer (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on March 3, 2020). However, we typically do not elevate the RRL above the ICR on the issuing bank for issuers for which the expectation of external government support is incorporated into the ICR, as determined under our bank criteria. In particular, if an issuer is a government-related entity (GRE), the RRL is typically equal to the ICR.

We then consider the likelihood for the provision of jurisdictional support, which for mortgage programs in Austria we assess as very strong. This leads us to apply up to three notches of uplift from the RRL. The jurisdictional supported rating on the covered bonds cannot be higher than our long-term rating on the Austrian sovereign. As we rate Austria at 'AA+' the program can benefit from all three available notches of jurisdictional supported uplift. Therefore, we assess the jurisdiction-supported rating level (JRL) at 'aa+'.

We have reviewed the asset information provided as of June 30, 2020. The program's underlying assets comprise €2.099 billion of residential mortgage loans, €0.593 billion commercial mortgages, and €45 million substitute assets. The available credit enhancement of 37% in the program exceeds the target credit enhancement. However, the issuer ́s overcollateralization commitment extends to a rating no higher than 'AA+'. Therefore, in line with our covered bonds criteria, we do not assign any collateral based uplift (see "Related Criteria"). Subsequently, the program does not benefit from any unused notches of uplift.

The ratings on the program and related issuances are currently not constrained by legal, operational, counterparty, or country risks.

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

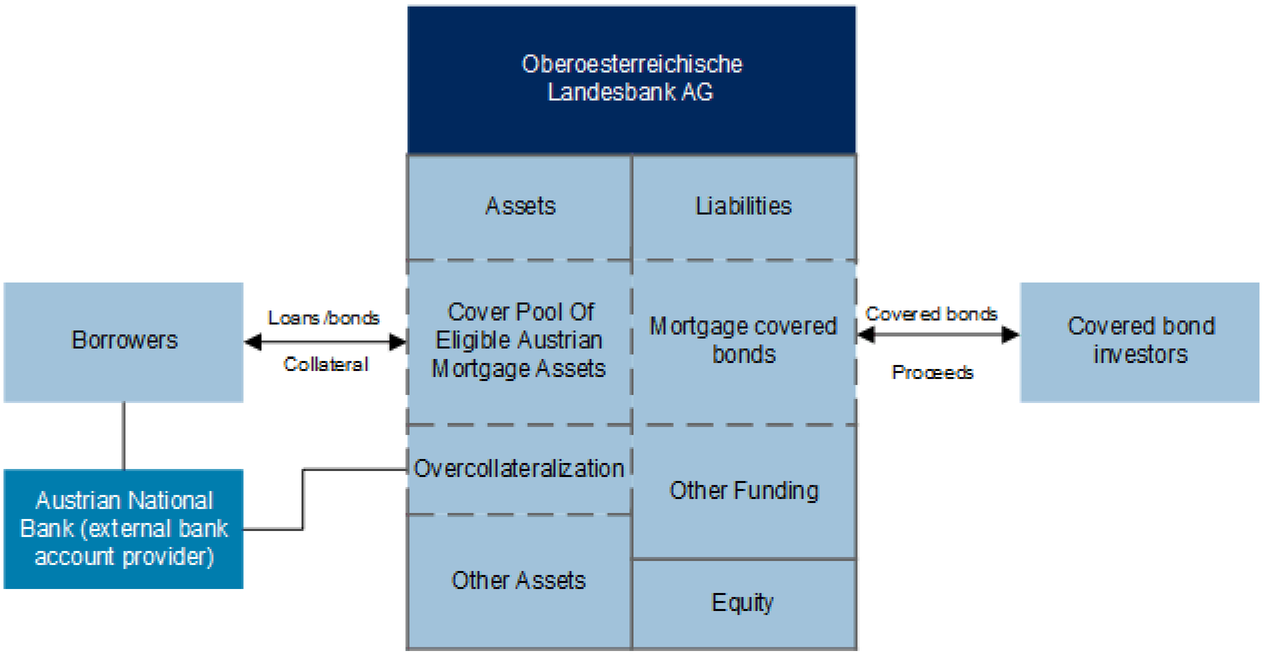
Program Description

Table 1

Program Overview*	
Jurisdiction	Austria
Year of first issuance	2016
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. €)	1.998
Redemption profile	Hard bullet
Underlying assets	Austrian residential and commercial mortgages, substitute assets
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	28.09
Available credit enhancement (%)	37.00
Collateral support uplift§	0
Unused notches for collateral support	0
Total unused notches	0

*Based on data as of June 30, 2020. §The program does not benefit from any collateral based uplift.

Oberoesterreichische Landesbank AG



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. In the area of subsidized housing, the bank has an exclusive partnership with Upper Austria. The bank's shareholders are the State of Upper Austria (51%) and Raiffeisenlandesbank Oberoesterreich AG (41%).

We consider HYPO OOE to be a 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 a senior secured unsubordinated obligation, rank pari passu with other obligations secured by the cover register, and are governed by the Austrian Covered Bond Act ("Pfandbriefgesetz"). All covered bonds are issued with a hard-bullet maturity.

Table 2

Program Participants

Role	Name	Rating	Rating dependency
Issuer	Oberösterreichische Landesbank AG	A+/Negative/ A-1	Yes
Bank account provider	Austrian National Bank	NR	Yes

Rating Analysis

Legal and regulatory risks

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

The covered bonds are governed by the Austrian Mortgage Bond Act ("Pfandbriefgesetz"). Under the Act, the issuer is regulated and supervised by the Financial Market Authority (FMA). The covered bonds are secured by a separate pool of assets and the FMA appoints a trustee to monitor the management of the cover pool. The Mortgage Bond Act includes, among other provisions, a 2% minimum nominal overcollateralization, and a mandatory reporting requirement. The Act does not specify a minimum liquidity requirement that the issuer has to maintain.

The expected key changes in the Austrian Pfandbriefgesetz following the harmonization of the covered bond regulations in the European Union are (i) the introduction of 180-day liquidity buffer requirement, (ii) increasing the minimum overcollateralization to 5%, and (iii) clarification of the conditions attached to triggering the extension period of soft-bullet covered bonds. The first two of these items affect Hypo OOE's covered bond program.

From our analysis, we have concluded that the cover pool assets are effectively isolated from the insolvency of the issuer for the benefit of the covered bondholders. Upon issuer insolvency, a cover pool administrator is appointed by a 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 we would to the long-term ICR on the issuer.

Operational and administrative risks

Based on our regular contact with the issuer, we consider that the issuer actively manages the cover pool and has strict underwriting and loan management policies. The issuer has systems in place to ensure timely payment on outstanding covered bonds.

We also believe that there is a high likelihood that a replacement cover pool manager could be appointed if the issuer became unable to manage the program following its default. We consider the high likelihood of a replacement servicer as part of the cash-flow analysis based on the standardized characteristics of the assets and we model a stressed fee in order to reflect the need to incentivize a replacement servicer.

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

Resolution regime analysis

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

The issuer is domiciled in Austria, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). 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 risk if there is a bank resolution. We consider this as an internal form of support because the bail-in of certain creditors of the issuer does not require direct government support. Additionally, our assessment of the systemic importance for Austrian mortgage covered bonds programs is very strong.

Based on these two facts we would typically add two notches of resolution support to the issuer credit rating. However, we view Hypo OOE as a GRE and incorporate potential sovereign support 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 mortgage programs in Austria, we assigned three notches of uplift from the RRL and assess the JRL as 'aa+'. The program does not benefit from any unused notches of jurisdictional support uplift.

Collateral support analysis

We base our analysis on the stratified mortgage data provided by the issuer as of June 30, 2020. We have transferred the data to the loan level format, under conservative assumptions (e.g. for loan-to-value [LTV] ratios provided under a bucket, we assumed the LTV at the highest level of the bucket) and following an LTV distribution that is representative for the issuer's portfolio, in order to assess the credit analysis via our stand alone loan level model. Our analysis of the residential and the commercial portion of the cover pool is based on the application of the specific stresses defined for Austria under our European residential loans criteria and our commercial real estate criteria (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published on Aug. 4, 2017, and "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

In addition to residential (77%), and commercial mortgage assets (22%), the cover pool includes a small share of substitute assets (2%). Most of the residential assets are owner-occupied properties, with land and uncompleted residential assets backing about 4% of the residential portfolio. The commercial assets are split between loans on multifamily homes (60%) and ownership associations (40%). The latter are cooperative housing with the ultimate collateral being for residential purposes.

Most of the mortgage assets show a form of interest subsidy from the regional state and due to the government involvement, which results in a low margin. We do not currently give any benefit to the interest subvention specified above, which exists only if the interest rises above a pre-specified level. In the current low interest environment there is limited to no benefit for the cover pool, and in cases where there is a subvention in place the borrowers remain ultimately liable for the full interest payments on their loans. Additionally, we do not have a stronger credit performance history available compared to standard mortgage assets without this additional feature.

Credit analysis

The small increase in the weighted-average foreclosure frequency (WAFF, currently 14.15% vs 13.05% in the previous pool-cut) is mainly due to the higher default rate on the residential portfolio. The share of the residential loans with original LTV ratios in the higher buckets (above 70%) increased somewhat and our LTV adjustments have a relatively high impact on the 'AAA' default assumptions for these loans.

The loss given default (weighted-average loss severity, WALS) decreased by over two percentage points, primarily due to the lower overvaluation that we see in the Austrian residential mortgage market.

The WAFF and WALS figures in Hypo OOE's cover pool are below the average figures that we calculate for the Austrian programs that we rate (22.84% and 31.69%, respectively).

The below tables provide an overview of the program's key characteristics.

Table 3

Cover Pool Composition

	As of June 30, 2020		As of June 30, 2019	
Asset type	**Value (mil.€)**	**Percentage of cover pool**	**Value (mil.€)**	**Percentage of cover pool**
Residential mortgages	2,099	76.69	2,168	77.13
Commercial mortgages	593	21.67	598	21.27
Substitute assets	45	1.64	45	1.60
Total	2,737	100	2,811	100

Table 4

Key Credit Metrics

	As of June 30, 2020	As of June 30, 2019
Residential assets		
Average loan size (€)	52,434	52,419
Weighted-average current LTV ratio (%)	35.09	35.29
Weighted-average loan seasoning (months)*	115.10	105.5
Balance of loans in arrears (%)	0.38	0.4
Geographic concentration	Upper Austria: 98%	Upper Austria: 99%
Commercial assets		
Weighted-average current LTV ratio (%)	38.38	38.00
Credit analysis results		
Weighted-average foreclosure frequency (%)	14.15	13.05
Weighted-average loss severity (%)	9.51	11.71
'AAA' credit risk (%)	22.45	22.62

*Seasoning refers to borrower's relationship term, as loans are often refinanced. LTV--Loan to value. W/H--Withheld at the issuer's request.

Table 5

Cover Pool Assets By Loan Size

	As of June 30, 2020	As of June 30, 2019
(€ '000s)	**Percentage of mortgage cover pool balance**	
0-500	86.39	87.19
500-1,000	5.59	5.40
1,000-2,500	4.77	4.61
2,500-5,000	1.13	1.24

Table 5

Cover Pool Assets By Loan Size (cont.)

	As of June 30, 2020	As of June 30, 2019
(€ '000s)	Percentage of mortgage cover pool balance	
5,000-10,000	1.00	0.51
Greater than 10,000	1.12	1.06

Table 6

Loan Seasoning Distribution*

	As of June 30, 2020	As of June 30, 2019
	Percentage of portfolio	
Less than 18 months	5.84	6.10
18-60	25.55	26.34
More than 60	68.61	67.56
Weighted-average loan seasoning (months)*	106.24	105.50

*Seasoning refers to borrower's relationship term, as loans are often refinanced.

Table 7

Geographic Distribution Of Loan Assets

	As of June 30, 2020	As of June 30, 2019
	'Percentage of portfolio	
Burgenland	0.14	0.13
Carinthia (Kaernten)	0.03	0.01
Lower Austria (Niederoesterreich)	1.53	1.15
Upper Austria (Oberoesterreich)	92.33	93.20
Salzburg	0.19	0.17
Styria (Steiermark)	2.42	2.26
Tyrol (Tirol)	0.14	0.12
Vorarlberg	0.01	0.01
Vienna (Wien)	1.58	1.37

Table 8

Collateral Uplift Metrics

	As of June 30, 2020	As of June 30, 2019
Asset WAM (years)	8.65	8.85
Liability WAM (years)	8.19	9.14
Available credit enhancement	37	39.37
'AAA' credit risk	22.45	22.62
Required credit enhancement for first notch of collateral uplift (%)	23.86	23.79
Required credit enhancement for second notch of collateral uplift (%)	25.27	24.97
Required credit enhancement for third notch of collateral uplift (%)	26.68	26.14
Target credit enhancement for maximum uplift (%)	28.09	27.31
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N

Table 8

Collateral Uplift Metrics (cont.)	As of June 30, 2020	As of June 30, 2019
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral support uplift (notches)	0	0

WAM--Weighted-average maturity.

Cash flow analysis

Our analysis of the covered bonds' payment structure shows that the cash flows from the cover pool assets would be sufficient, at the given rating level, to make timely payment of interest and ultimate payment of principal on the legal final maturity.

The asset-liability mismatch is relatively low in the program and the target credit enhancement for the maximum potential rating ('AAA') is dominated by various credit risks (default risk and interest rate risk). As there are no commitments for liquidity coverage we deduct one notch from the available four notches of collateral-based uplift.

The program commits to hold sufficient overcollateralization to maintain the current 'AA+' rating, which it can achieve with jurisdictional support only and without any collateral above the legal minimum (2% nominal overcollateralization). Therefore, we give no benefit to the available overcollateralization in excess of the 2% in our collateral analysis. The program therefore does not benefit from any unused notches of collateral based uplift.

Counterparty risk

The ratings on the program and related issuances are not constrained by counterparty risks. Cover pool related inflows enter dedicated accounts with Austrian National Bank, the only account provider for the program. In the absence of a replacement framework, the ratings on the covered bonds are weak-linked to the creditworthiness of ANP.

There are no derivatives registered in the cover pool.

We analyzed the counterparty risks according to our current 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 and 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 these 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 our 'AA+' long-term rating on Austria, country risk does not constrain our rating on the covered bonds.

Potential effects of proposed criteria changes

Our review of these covered bonds is based on our criteria for rating covered bonds (see "Related Criteria"). The assumptions and methodologies used in the credit and cash flow analysis are currently under review (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans (Austria, Germany, And Hungary)," published on Oct. 20, 2020).

This review may result in further changes to the criteria. As a result, our future assumptions and methodologies may differ from our current criteria. Until such time that we adopt new criteria for rating covered bonds, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria").

Effects of COVID-19

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Related Criteria

- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014

Related Research

- Global Methodology And Assumptions: Assessing Pools Of Residential Loans (Austria, Germany, And Hungary), Oct. 20, 2020
- Oberoesterreichische Landesbank AG, Oct. 6, 2020
- Austria Rating Affirmed At 'AA+/A-1+'; Outlook Stable, Sept. 11, 2020
- Global Covered Bond Characteristics And Rating Summary Q3 2020, Sept. 17, 2020
- Global Covered Bond Insights Q3 2020, Sept. 17, 2020
- S&P Global Ratings Definitions, Aug. 7, 2020
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, March 3, 2020
- S&P Global Ratings' Covered Bonds Primer, June 20, 2019
- Glossary Of Covered Bond Terms, April 27, 2018