S&P Global
Ratings

RatingsDirect®

Transaction Update: Bank für Tirol und Vorarlberg AG Mortgage Covered Bond Program

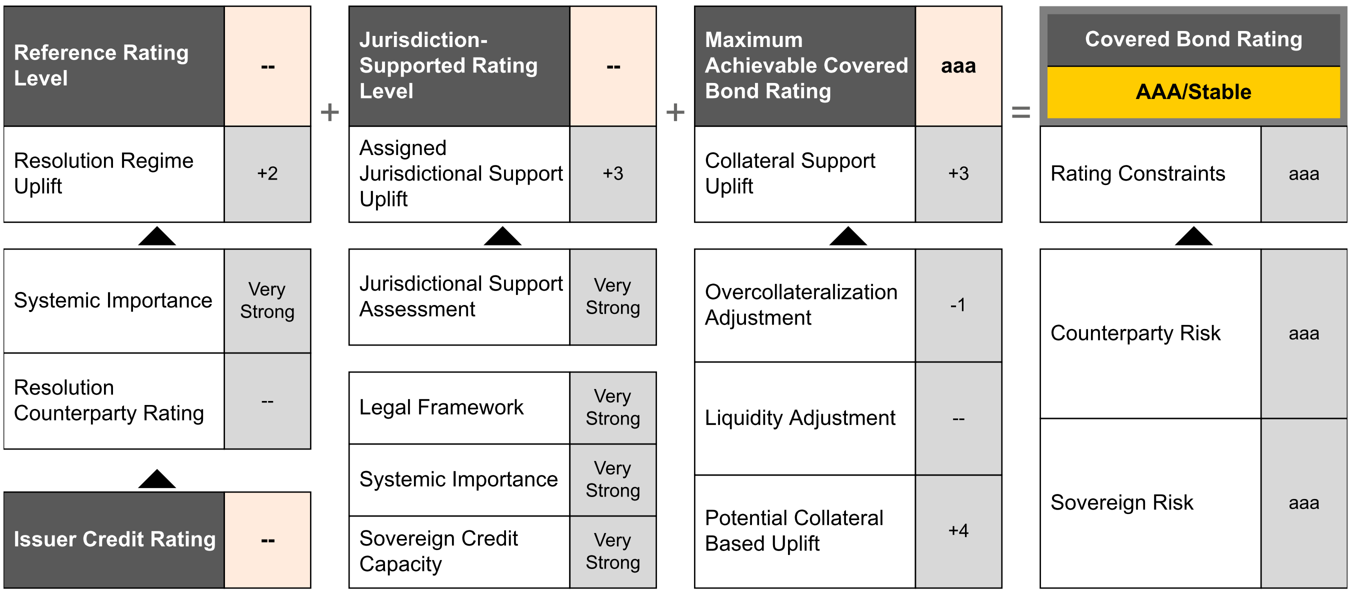
Primary Credit Analyst:
Natalie Swiderek, Madrid + 34 91 788 7223; natalie.swiderek@spglobal.com

Research Contributor:
Abha A. Korde, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Transaction Update: Bank für Tirol und Vorarlberg AG Mortgage Covered Bond Program

Ratings Detail



Major Rating Factors

Strengths

- The cover pool comprises predominately seasoned Austrian residential mortgage loans for owner occupation.
- The mortgage pool predominantly contains first-lien mortgage loans.
- Both residential and commercial mortgage loans have lower current cover pool loan-to-value (LTV) ratios than its peers.

Weaknesses

- The current small subportfolio of commercial mortgage loans attracts a 69.34% default probability assumption under our analytical approach.
- The concentration of mortgages in Tyrol and Vorarlberg, which we have considered in our determination of default frequency.
- The relatively high mismatch between the cover pool assets' weighted-average maturity and the outstanding covered bonds increases refinancing risk and is reflected in the target credit enhancement.

Outlook: Stable

S&P Global Ratings' stable outlook on the covered bond ratings reflects the cushion of one unused notch of collateral-based support that would protect the covered bond ratings if our view of the issuer's creditworthiness deteriorated, all else being equal.

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 because of lower available credit enhancement and/or the deterioration of the cover pool's credit risk profile.

Rationale

This transaction update follows our periodic review of Bank für Tirol und Vorarlberg AG's (BTVAG's) mortgage 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: Methodology And Assumptions," published on June 30, 2015.

From our analysis of the Austrian legal and regulatory framework, we consider that it effectively isolates the cover pool assets from the issuer's insolvency estate to benefit the covered bondholders. The protection of the cover pool assets and the continued management of the cover pool allow us to elevate the covered bond ratings above BTVAG's creditworthiness.

Based on our operational risk analysis--which covered a review of BTVAG's lending process, collection procedures, and default management procedures, as well as cover pool management and administration--we believe that the covered bond ratings are not constrained by operational risk.

BTVAG 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 BTVAG 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. We have therefore assigned two notches of uplift above our assessment of BTVAG's creditworthiness to determine the covered bonds' reference rating level (RRL).

We considered the likelihood for the provision of jurisdictional support. Based on a very strong jurisdictional support assessment for mortgage covered bonds in Austria, we assigned three notches of uplift from the RRL to determine the covered bonds' jurisdiction-supported rating level (JRL).

We reviewed the cover pool information provided as of Dec. 31, 2024. The €436 million of outstanding covered bonds are secured by a €801.7 million cover pool comprising Austrian residential mortgage loans (64.2% of cover pool balance), Austrian and German commercial mortgage loans (34.6% of the cover pool balance), and 1.3% of substitute assets.

We assessed the residential mortgage cover pool's credit quality by estimating the credit risk associated with each loan in the pool. We base this loan-level analysis on the specific adjustments defined for Austria under our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019). Our analysis of the commercial mortgage loan subportfolio is based on our commercial real estate (CRE) criteria, "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015. Under these criteria, due to the commercial sub pool's current small size (comprising 177 loans), we apply a small pool adjustment factor to the default frequency, which ultimately results in a default frequency assumption of 69.3%.

Based on our collateral support analysis, the available overcollateralization of 83.9% exceeds the target credit enhancement of 32% commensurate with a potential four-notch uplift above the JRL. From these four notches, we deduct one due to uncommitted overcollateralization. We do 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 assigned collateral support uplift is three notches above the JRL, permitting the covered bonds to achieve a 'AAA' rating (see table 1).

There are no rating constraints to the 'AAA' rating relating to legal, counterparty, or sovereign risks.

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

Program Description

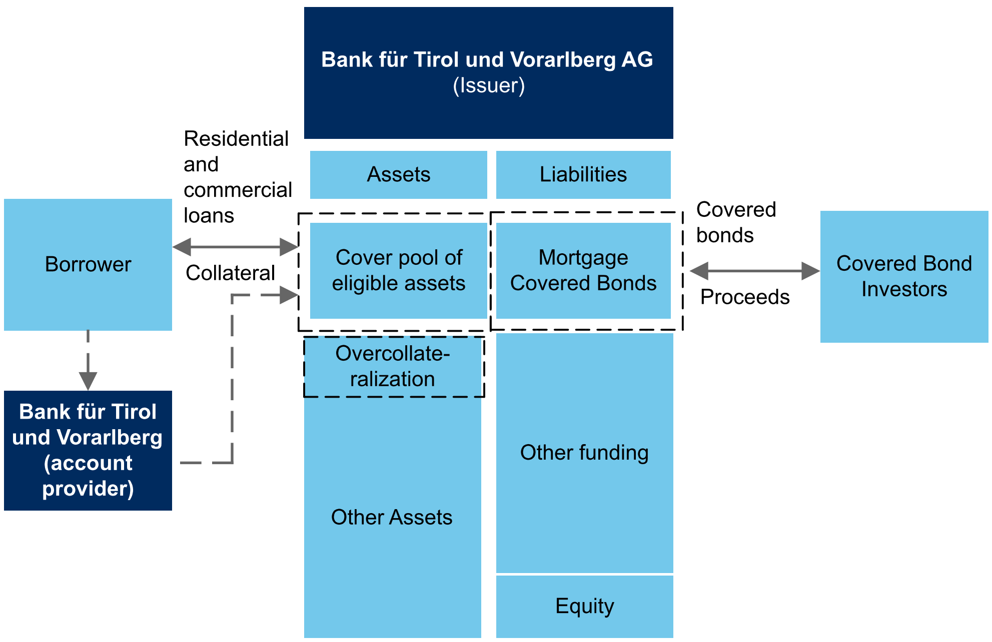
Table 1

Program overview*	
Jurisdiction	Austria
Year of first issuance	2012
Covered bond type	Legislation-enabled (Austrian Pfandbriefgesetz)
Cover pool assets	Residential and commercial mortgage loans
Covered bond rating	AAA/Stable
Cover pool notional amount (mil. €)	801.75
Outstanding covered bonds (mil. €)	436.00
Redemption profile	Hard bullet
Resolution regime uplift	2
Jurisdictional support uplift	3
Unused notches for jurisdictional support	--
Target credit enhancement (%)	31.99
Credit enhancement commensurate with current rating (%)	28.03
Available credit enhancement (%)	83.89
Assigned collateral support uplift	2
Unused notches for collateral support	1
Total unused notches	1

*Results are based on data as of Dec. 31, 2024.

Transaction Structure

Bank fur Tirol und Vorarlberg AG Mortgage Covered Bond Program



BTVAG received its license to issue covered bonds in 2002 and issued its first covered bond in 2012. The covered bonds are issued under its bond issuance program. As of Dec. 31, 2024, there are €436 million of mortgage covered bonds outstanding. The covered bonds are secured by a cover pool of €801.7 million predominantly Austrian residential and commercial mortgage loans, a small share of German mortgage loans and substitute assets. To date, all mortgage covered bonds are issued with hard bullet maturities and are euro denominated. The covered bonds constitute senior-secured unsubordinated obligations of the issuer and rank pari passu with all other obligations secured by the mortgage cover pool register. Covered bondholders have recourse to BTVAG and in the instance of its insolvency to the assets comprised in the cover pool register.

BTVAG provides the bank account for the covered bond program. We have considered the associated counterparty risk when determining the required credit enhancement at a 'AAA' rating level in the absence of structural mitigants.

No derivatives are registered in the cover pool to mitigate interest and foreign exchange rate risk. Interest rate risk arises from differences in the interest payable on the cover assets (71.5% floating rate) versus the interest payable on the covered bonds (97.7% fixed rate paying). Cover pool assets are predominantly euro-denominated, with a small share of 6.9% denominated in Swiss francs. We have considered the resulting interest rate and currency risk in our cash flow modeling.

Table 2

Program participants			
Role	**Name**	**Rating**	**Rating dependency**
Issuer	Bank für Tirol und Vorarlberg AG	--	Yes
Originator and servicer	Bank für Tirol und Vorarlberg AG	--	No
Bank account	Bank für Tirol und Vorarlberg AG	--	No

Rating Analysis

Legal and regulatory risks

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

Some of BTVAG's outstanding covered bonds were issued under the Austrian Law on Secured Bank Bonds ("Gesetz betreffend fundierte Bankschuldverschreibungen"). The covered bonds issued from the program after July 7, 2022, are issued under Austria's new covered bond law ("Pfandbriefgesetz" "Austrian Covered Bond Act"), which implements the EU's Covered Bonds Directive. The revised law merged the 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. Issuances made before July 8, 2022, are not required to fulfill the requirements of the Austrian Covered Bond Act and are grandfathered with their original designation.

The covered bonds constitute direct, unconditional, and unsubordinated obligations of the issuer and 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--in the event of an issuer insolvency--to the assets comprised in the cover register.

The Austrian Covered Bond Act 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 a borrower's 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 register subject to prior consent of the counterparty.

Under the Austrian Covered Bond Act, the LTV limits can be deduced from the reference of eligible cover assets to CRR Art 129 (1), including an LTV limit of 80% of the value of the property for residential real estate, and 60% for CRE. A limit of up to 70% is also possible for CRE. At the same time, issuers can set lower LTV limits in their articles of association.

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 prohibition of set off does not apply to derivative contracts, when netting occurs for receivables arising under one and the same master agreement.

Our analysis of the Austrian Covered Bond Act concluded that it addresses the main legal aspects that we assess in a covered bond legislation. The cover pool register is effectively isolated from the issuer's insolvency estate to benefit the covered bondholders. If the issuer becomes insolvent, a bankruptcy court, after consultation with the Austrian Financial Market Authority (FMA), will appoint a cover pool administrator to continue the cover pool's management and satisfy the covered bondholders' claims. The cover pool assets' protection and the cover pool's continued management allow us to assign a higher rating to the covered bond program than BTVAG's creditworthiness.

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.

In our opinion, there is no operational risk from the cover pool's management and loan origination that would constrain the covered bond rating to the same level as BTVAG's creditworthiness.

We believe that a 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 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.

With total assets of €14.7 billion as of Sept. 30, 2024, BTVAG is a small universal Austrian bank. It has a strong regional focus in Tirol, Vorarlberg, and Vienna, complemented by operations in Switzerland, Southern Germany, and Northern Italy. The bank primarily lends to small-to-medium enterprises and retail clients. BTVAG is traditionally closely involved in tourism and tourist infrastructure in its core market of Tyrol. It is part of the 3 Banken Group, a partnership-based cooperation with Oberbank AG and BKS Bank AG.

BTVAG originates all mortgage loans in the pool. Housing loans are subject to a maximum LTV ratio of 80% and a debt service-to-income ratio of maximum 40%, among others. The maximum loan term for private clients is 30 years. The maximum LTV for commercial mortgage loans is 60% of the property's market value. Loans are mostly repayment where borrowers pay monthly installments of principal and interest. Interest-only loans are granted for a limited period only. The interest rate on the loans is predominantly variable or fixed over a certain term.

Mortgage loans are mostly granted in euro. The share of foreign currency denominated loans in BTVAG's loan book is 2.8% as of Dec. 31, 2024, and is declining since the Austrian regulator largely prohibited new foreign exchange lending to unhedged households starting in 2010. Therefore, BTVAG does not grant any new foreign currency loans exempt those that meet Austrian FMA's minimum standards.

Examining the consumer's creditworthiness always precedes any granting of a loan. As part of the origination process, the bank requires proof of income and conducts affordability and credit history checks. Next to economic aspects--including pay slips, insurance policies, accounts, and balance sheets (in the instance of self-employed borrowers)--personal aspects such as qualifications, lifestyle, and reputation are assessed. The customers' creditworthiness is updated monthly through an account behavior rating. In addition, a bank internal credit scoring is performed at least annually.

Property valuations are carried out centrally by the credit management department and generally occur through an onsite property inspection. Property values are monitored at a minimum once every year for commercial property and once every three years for residential properties. In addition, for residential real estate, BTVAG performs an annual, automated reevaluation.

BTVAG does not include speculative financings and loans to borrowers having a bank internal rating of below a certain threshold in the cover pool, among others. BTVAG removes loans from the cover pool if a borrower's credit quality deteriorates beyond a predetermined threshold as measured by the borrower's bank internal rating.

Overall, we believe there are sufficiently prudent and effective underwriting and servicing procedures in place to support our rating on the covered bonds.

Resolution regime analysis

As part of our covered bonds criteria, our analysis considers the resolution regime in place in Austria to determine the RRL. The RRL on BTVAG is two notches above our assessment of its creditworthiness. We consider the following factors:

- BTVAG is domiciled in Austria, which is subject to the EU's BRRD, which excludes covered bonds from bail-in-able debt.
- We assess the systemic importance for Austrian mortgage covered bonds as very strong.

Therefore, the RRL is the greater of (1) our assessment of the issuer's creditworthiness plus two notches; and (2) the resolution counterparty rating (RCR) on the issuer, where applicable.

This uplift recognizes 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 as the law exempts covered bonds from bail-in 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. This increases the likelihood that an issuer would continue to service its covered bonds without accessing the cover pool or receiving jurisdictional support, even if it were to face failure.

Jurisdictional support analysis

In our jurisdictional support analysis, we determine the covered bonds' JRL, which is our assessment of the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of liquidating cover assets in the open market.

Our jurisdictional support analysis assesses three factors: the legal framework's strength, the covered bonds' systemic importance, and the sovereign's credit capacity. For Austrian mortgage covered bonds, we assess all three factors as very strong leading to an overall jurisdictional support assessment of very strong. In addition, our sovereign rating on Austria (AA+/Stable/A-1+) does not constrain the JRL. As a result, the covered bonds benefit from three notches of jurisdictional support uplift above the RRL.

Collateral support analysis

We have reviewed the cover pool information as of Dec. 31, 2024. The €801.7 million cover pool includes residential (64.2%) and commercial loans (34.6%) granted to borrowers, on some occasions, backed by different properties. The residential mortgage loan portfolio contains about 2,790 loans with on average a cover pool current LTV ratio of 44% after house price indexation.

The weighted-average seasoning of the residential portfolio is about 6.8 years and the interest rate on most of the loans is floating (mostly linked to three-month EURIBOR). Most of the residential loans are for owner occupation, with about 7.2% being for buy-to-let purposes.

The current commercial mortgage loan subportfolio contains a small number of loans, with the largest exposures to hotels.

The below tables provide an overview on the cover pool's composition.

Table 3

Cover pool composition

	As of Dec. 31, 2024		As of Dec. 31, 2023	
Asset type	**Cover pool balance (€)**	**Cover pool balance (%)**	**Cover pool balance (€)**	**Cover pool balance (%)**
Residential mortgages	514,547,574	64.18	556,086,608	70.19
Commercial mortgages	277,217,844	34.57	236,144,670	29.81
Substitute assets	9,987,400	1.25	0.00	0.00
Total	801,752,818	100	792,231,279	100

Table 4

Key credit metrics

	As of Dec. 31, 2024	As of Dec. 31, 2023
Residential mortgages		
Average loan size (€)	189,295	196,946
Weighted-average effective LTV ratio (%)*	69.55	64.59
Weighted-average original LTV ratio (%)	74.55	70.26
Weighted-average cover pool LTV ratio (%)	44.35	40.08
Weighted-average loan seasoning (years)§	6.80	6.40
Balance of loans to self-employed borrowers (%)	25.10	26.77
Balance of loans above regional concentration threshold (%, Tyrol & Vorarlberg)	53.09	52.47
Balance of loans in arrears (%)	0.00	3.32
Residential mortgages credit analysis results		
WAFF (%)	18.19	17.65
WALS (%)	20.76	22.93
Commercial mortgages		
Weighted-average whole loan LTV ratio (%)	55.09	58.24
Weighted-average cover pool LTV ratio (%)	33.71	36.87
WAFF (%)	69.34	89.94
WALS (%)	37.12	39.98
Combined mortgage pool credit analysis results		
WAFF (%)	38.23	41.03
WALS (%)	27.17	28.44
Expected losses (WAFF*WALS) (%)	10.39	11.67

*Calculated weighting 80% of the original LTV and 20% of the current LTV. LTVs are based on the 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

WAFF-effective LTV/whole LTV ratios (%)	As of Dec. 31, 2024	As of Dec. 31, 2023
Residential mortgages - effective LTV ratios (%)		
0-40	18.02	21.32
40-50	11.05	12.91
50-60	15.58	13.00
60-70	12.60	16.27
70-80	12.78	12.15
80-90	10.61	9.23
90-100	8.07	5.98
>100	11.29	9.14
Weighted-average effective LTV ratio	69.55	64.59
Commercial mortgages - current whole LTV ratios (%)		
0-40	34.28	48.58
40-50	15.23	8.07

Table 5

Loan-to-value ratios (cont.)		
50-60	8.04	11.57
60-70	8.14	5.62
70-80	9.72	7.97
80-90	3.82	9.20
90-100	20.77	0.79
>100	0.00	8.19
Weighted-average whole LTV ratio	55.09	58.24
WALS-cover pool LTV ratios (%)		
Residential mortgages - current LTV ratios after HPI, based on cover pool balance (%)		
0-40	53.83	58.12
40-50	13.49	16.32
50-60	10.51	9.93
60-70	8.74	5.56
70-80	4.62	5.27
80-90	4.02	1.34
90-100	1.47	0.26
>100	3.32	3.20
Weighted-average cover pool LTV ratio	44.35	40.08
Commercial mortgages - current LTV ratios, based on cover pool balance (%)		
0-40	55.01	57.19
40-50	14.75	8.88
50-60	29.41	33.20
60-70	0.37	0.47
70-80	0.34	0.00
80-90	0.00	0.00
90-100	0.13	0.00
>100	0.00	0.25
Weighted-average current LTV ratio	33.71	36.87

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

Table 6

Loan seasoning distribution*		
	As of Dec. 31, 2024	**As of Dec. 31, 2023**
	Current residential mortgage loan balance (%)	
In arrears (no seasoning benefit)	0.00	3.32
<=5 years	40.59	44.27
>5 and <=6 years	10.36	9.33
>6 and <=7 years	8.42	7.88
>7 and <=8 years	8.24	6.61
>8 and <=9 years	5.84	6.87
>9 and <=10 years	7.02	2.81
>10 years	19.53	18.92

Table 6

Loan seasoning distribution* (cont.)		
	As of Dec. 31, 2024	**As of Dec. 31, 2023**
Weighted-average residential loan seasoning (years)	6.80	6.40

*Seasoning refers to the elapsed loan term.

Table 7

Geographic distribution of loan assets				
	As of Dec. 31, 2024		**As of Dec. 31, 2023**	
	Current residential mortgage loan balance (%)	**Current commercial mortgage loan balance (%)**	**Current residential mortgage loan balance (%)**	**Current commercial mortgage loan balance (%)**
Austria				
Burgenland	0.17	0.61	0.42	0.79
Carinthia (Kaernten)	2.34	0.11	2.21	0.00
Lower Austria (Niederoesterreich)	6.04	0.00	4.70	0.00
Upper Austria (Oberoesterreich)	0.66	0.00	0.59	0.00
Salzburg	0.52	0.64	0.37	0.79
Styria (Steiermark)	0.35	0	0.40	0
Tyrol (Tirol)	59.59	50.94	59.09	48.60
Vorarlberg	18.50	13.90	18.38	14.28
Vienna (Wien)	11.83	14.12	13.85	35.53
Germany				
Bavaria	0.00	9.77	0.00	0.00
Baden-Wuerttemberg	0.00	9.91	0.00	0.00

We assess a typical residential mortgage cover pool's credit quality by estimating the credit risk associated with each loan in the pool. We base this loan-level analysis on the specific adjustments defined for Austria under our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019). Our analysis of the commercial mortgage loans is based on our CRE criteria. Under these criteria, due to this subportfolio's current small size (about 177 loans) we apply a small pool adjustment factor to its default frequency. Given this subportfolio's current composition, this ultimately results in a default frequency assumption of 69.3% (89.9% previously).

We then calculate the aggregate risk to assess the cover pool's overall credit quality. We weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance to quantify the potential losses associated with the entire pool. The product of this weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged.

As of Dec. 31, 2024, we estimate a residential WAFF of 18.2% (previously 17.6%) and a WALS of 20.8% (previously 22.9%). The residential portfolio's WAFF increased mainly due to higher effective LTV ratios and a higher share of second-lien loans. We have determined a weighted-average effective LTV ratio for the residential cover pool of 69.6% (64.6% previously). Additional contributing factors are the higher share of fixed-to-floating rate loans which we have considered subject to a potential payment shock, and a higher exposure of residential loans backed by properties in Tyrol and Vorarlberg exceeding the respective regional concentration limits under our residential loans criteria. The above drivers of the WAFF are partially offset by a higher loan seasoning and a lower share of loans to self-employed borrowers (see table 4). About 59.4% (52.4% previously) of residential loans are more than five years seasoned and benefit from a reduction to their base foreclosure frequency. The reduction in residential WALS reflects mainly our lower overvaluation assumption for Austrian residential real estate and a lower share of loans backed by properties exceeding our jumbo valuation limits. These effects have more than offset the negative effect of the higher cover pool current LTVs on the WALS.

For the current commercial mortgage loan subportfolio, our WAFF after applying our small pool adjustment factor is 69.3% (previously 89.9%) and our WALS 37.1% (previously 40%). The lower WAFF is driven by the increased size of the commercial subportfolio itself, which resulted in a lower small pool adjustment factor to the base foreclosure frequency of this subportfolio. The lower commercial WALS reflects lower current LTV ratios and a higher share of multifamily housing exposure which, under our CRE criteria, attract a lower market value decline assumption (75%) than traditional CRE (85%).

At a 'AAA' level of stress, the combined residential and commercial mortgage loan portfolio's WAFF is 38.2% (previously 41%) and WALS is 27.2% (previously 28.4%). The combination of the WAFF and WALS as the measure of the cover pool's overall credit quality (credit coverage: WAFF x WALS) has decreased to 10.4% from 11.7%.

The small share of substitute collateral consists of a 'AA+' rated public sector bond, which in a 'AAA' stress scenario we assume as defaulted in our analysis with a 60% recovery rate.

The results of our credit analysis, including the combined cover pool's WAFF of 38.2% and weighted-average recovery rate (1-WALS) equivalent to 72.8%, represent inputs to our cash flow analysis. Our analysis of the covered bonds' payment structure shows that cash flows from the cover pool assets would be sufficient, at the given rating, to make timely payment of interest and ultimate principal to the covered bond on its legal final maturity. We have performed our cash flow analysis as of Dec. 31, 2024.

We stress the cover pool's cash flows--incorporating various default patterns, default timings, interest rate paths, and currency stresses--to address foreign exchange rate fluctuations between the small share of Swiss franc-denominated assets and the euro-denominated covered bonds. We also stress cash flows under different prepayment rate and delinquency assumptions, which we run at different points over the weighted-average life of the covered bonds.

The program is exposed to structural asset-liability mismatch risk because the covered bonds' repayment profile is not aligned with that of the assets. Our model simulates a stressed sale of assets whenever a liquidity shortfall occurs in our analysis. The discount applied for the combined portfolio of mortgage assets is 650 basis points (up from 611 basis points previously), on top of the stressed interest rate at the time of the shortfall. The higher target asset spread is driven by a higher share of commercial loans in the pool.

The cover pool register does not include derivatives to mitigate interest rate and foreign exchange rate risk. We have considered both in our cash flow analysis. We also stressed basis risk. In addition, we considered the possibility that the spread on the mortgage loans reduces 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.

We also modeled commingling risk by sizing a portion of collections to be lost in our cash flow model because cash collections from the cover pool assets are not segregated in the cover pool before the insolvency of the issuer.

Our 'AAA' credit risk --our base line measure of cash flow risk assuming no asset-liability mismatch--has improved with 16.2% (16.6% previously) driven by the reduction in credit coverage. In addition to 'AAA' credit risk, our target credit enhancement includes the additional credit enhancement that we expect is required to refinance the cover pool in a stressed environment. We calculate a target credit enhancement of 32.0% (28.8% previously), below the available credit enhancement of 83.9%. The higher target credit enhancement is driven by a higher asset liability maturity mismatch, a higher target asset spread, and a lower excess spread (the difference between the interest generated by the assets and the interest payable on the covered bonds). These effects were somewhat mitigated by the reduction in credit coverage.

We believe that there is an active secondary market for the cover pool assets. Therefore, the covered bonds can potentially benefit from four notches of collateral-based uplift above the JRL. As outlined above, a one-notch deduction applies resulting in a maximum collateral-based uplift of three notches above the JRL (see table 8). With a JRL of 'aa', the covered bonds use two notches to achieve a 'AAA' rating with a required credit enhancement of 28% ('AAA' credit risk and 75% refinancing costs). This results in one unused notch of collateral support, which would protect the ratings on the covered bonds in the event of a deterioration of our view of the issuer's creditworthiness, all else being equal.

Table 8

Collateral support uplift metrics

	As of Dec. 31, 2024	As of Dec. 31, 2023
Asset weighted-average maturity (years)	8.67	8.52
Liability weighted-average maturity (years)	3.34	3.94
Maturity gap (years)	5.33	4.58
Available credit enhancement (%)	83.89	62.34
'AAA' credit risk (%)	16.15	16.64
Required credit enhancement for first notch of collateral-based uplift (%; 'AAA credit risk' and 25% refinancing costs)	20.11	19.69
Required credit enhancement for second notch of collateral-based uplift (%; 'AAA credit risk' and 50% refinancing costs)	24.07	22.73
Required credit enhancement for third notch of collateral-based uplift (%; 'AAA credit risk' and 75% refinancing costs)– credit enhancement required for current rating	28.03	25.78
Target credit enhancement for maximum potential collateral-based uplift (%)	31.99	28.82
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral based uplift (notches)	3	3

WAM--Weighted-average maturity.

Counterparty risk

The covered bond rating is not constrained from a counterparty risk perspective (see "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019).

Borrowers effect their payments into the accounts held with BTVAG. Based on our legal risk analysis we have concluded that cash collections from the cover assets received after an issuer insolvency, upon which a special administrator will be appointed to manage the cover assets, would form part of the separate cover pool estate and therefore are not available to the issuer's general creditors. However, cover pool collections standing or paid in the collection account pre issuer insolvency are potentially exposed to commingling risk because these collections are not segregated in the cover pool.

There is no documented replacement mechanism in place, which would protect the covered bondholders from the bank account providers' credit deterioration. Therefore, we considered the risk that cover pool collections may be lost if they have not been reinvested in cover assets or used to pay the covered bonds.

No derivatives are registered in the cover pool.

Sovereign risk

We analyze sovereign risk by applying our structured finance sovereign risk criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published Jan. 30, 2019).

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 hard-bullet maturities and 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 rating on the covered bond program.

Environmental, social, and governance

Governance factors are a moderately negative consideration in our credit rating analysis of BTVAG's mortgage covered bonds. The issuer is not committed to maintaining a minimum overcollateralization level in the program. This introduces the risk that the available credit enhancement could decrease in the future to levels that are not commensurate with the current ratings. This reduces the unused notches of uplift by one and increases the required credit enhancement for the current rating. Environmental and social credit factors are an overall neutral consideration in our credit rating analysis of BTVAG's mortgage covered bonds.

Potential Effects Of Proposed Criteria Changes

Our ratings are based on our applicable criteria, including our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019. However, these criteria are under review (see "Request For Comment: Methodology For Rating Covered Bonds" published on April 3, 2025 and "Request For Comment: Counterparty Risk Methodology," published on April 3, 2025). As a result of this review, we may amend these criteria. This change may affect the ratings on the outstanding covered bonds issued under this covered bond program. Until this time, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria").

Related Criteria

- Request For Comment: Methodology For Rating Covered Bonds, April 3, 2025
- Request For Comment: Counterparty Risk Methodology, April 3, 2025
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement, April 4, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities , Dec. 22, 2020
- 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
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans , Jan. 25, 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: 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
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Global Covered Bond Insights Q2 2025: Issuance Holds Steady Amid Market Volatility, March 18, 2025
- Austria Outlook Revised To Stable From Positive On Fiscal And Economic Challenges; 'AA+/A-1+' Ratings Affirmed, Feb. 14, 2025
- S&P Global Ratings Definitions, Dec. 2, 2024
- Glossary Of Covered Bond Terms, April 27, 2018