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Transaction Update: Austrian Anadi Bank AG Mortgage Covered Bond Program

€750 Million Conditional Pass-Through Mortgage Covered Bonds

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Ratings Detail

Reference Rating Level	**N/A**
Resolution Regime Uplift	N/A
Systemic Importance	Very Strong
Resolution Counterparty Rating	N/A
Issuer Credit Rating	**Not Rated**

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Jurisdiction-Supported Rating Level	**N/A**
Assigned Jurisdictional Support Uplift	N/A
Jurisdictional Support Assessment	Very Strong
Legal Framework	Very Strong
Systemic Importance	Very Strong
Sovereign Credit Capacity	Very Strong

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Maximum Achievable Covered Bond Rating	**aa**
Collateral Support Uplift	aa
Overcollateralization Adjustment	0
Liquidity Adjustment	0
Potential Collateral Based Uplift	Up to aa

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Covered Bond Rating	**AA**
Rating Constraints	aaa
Counterparty Risk	aaa
Country Risk	aaa

Major Rating Factors

Strengths

- Potential maturity mismatches between assets and liabilities are structurally mitigated, allowing us to delink the covered bond ratings from what would be the long-term issuer credit rating (ICR).
- The maturity extension enables the cover pool administrator to avoid a forced liquidation of assets upon the issuer's insolvency.
- The contractual credit enhancement is commensurate with the credit enhancement required at a 'AA' rating level.

Weaknesses

- The structure does not benefit from an interest rate swap or account bank replacement language.
- There is a high concentration of mortgages in the Austrian State of Carinthia.
- Cash belonging to the cover pool is mixed with cash belonging to the issuer and could be lost if Austrian Anadi Bank becomes insolvent. We stress this as part of our analysis.

Rationale

S&P Global Ratings is publishing this transaction update as part of its annual review of Austrian Anadi Bank AG's conditional pass-through 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 "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

Austrian Anadi's outstanding mortgage covered bonds were issued under the Austrian Pfandbriefgesetz (Mortgage Bond Act); Gesetz vom 21. Dezember 1927 über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten. Austria's new covered bond law ("Pfandbriefgesetz") which implements the EU's Covered Bonds Directive was published on Dec. 10, 2021 and entered into force on July 8, 2022. It applies to all covered bonds issued after July 7, 2022.

We consider that the Austrian legal and regulatory framework effectively isolates the cover pool assets from the issuer's insolvency estate for the benefit of the covered bondholders. This asset isolation allows us to assign a higher rating to the covered bonds than would be the long-term ICR.

Based on our operational risk analysis, which covered a review of Austrian Anadi Bank's origination, underwriting, collection, and default management procedures, as well as cover pool management and administration, we believe that the ratings on the covered bonds are not constrained by operational risk.

Anadi Bank 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 Austrian Anadi Bank 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 considered the likelihood for the provision of jurisdictional support Based on a very strong jurisdictional support assessment for mortgage programs in Austria, under our covered bonds criteria, we could assign three notches of uplift fromthe reference rating level (RRL). However, as we do not rate the issuer, we rely on the cover pool's asset quality and the committed overcollateralization (OC) to make payments on the covered bonds.

The program can switch the bullet payment obligation into a pass-through payment in the event of issuer bankruptcy and/or materialization of certain additional trigger events, allowing us to delink the ratings on the covered bonds from the jurisdiction-supported rating level (JRL). As the issuer is not rated, the potential uplift is based on our analysis of the collateral support and could exceed the four notches that we would grant to programs exposed to asset-liability maturity mismatch risk.

Our credit analysis is based on the asset information as of June 30, 2022, while our cash flow analysis is based on the asset and liability balances as of September 30, 2022. As of June 30, 2022, the portfolio comprised residential mortgage loans (67.82%), commercial mortgage loans (29%), and substitute assets (3.17%). Based on our credit and cash flow analysis, we determined that the credit enhancement required to support a 'AA' rating on the covered bonds is 12.83%. In its transaction documents, Austrian Anadi Bank has committed to maintain a minimum level of OC sufficient to support a 'AA' rating on the covered bonds. As of Sept. 30, 2022, the available OC was 32.30%, up from 15.38% as of Sept. 30, 2021.

There are no rating constraints to the 'AA' ratings relating to counterparty or sovereign risks. We do not assign outlooks for ratings on programs whose creditworthiness we believe is not dependent on that of the issuer.

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

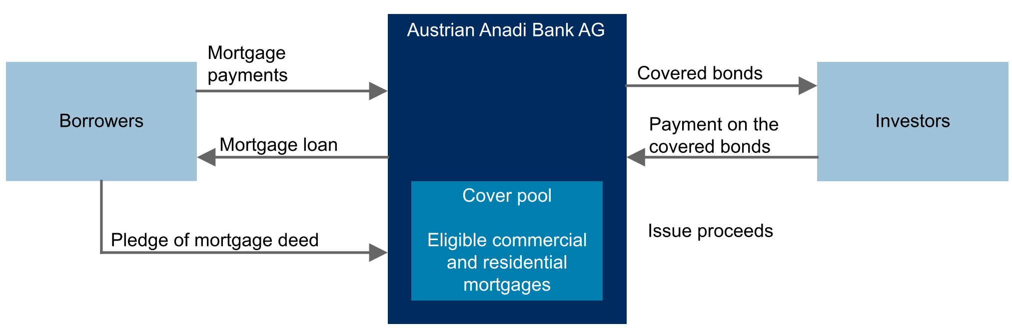
Program Description

Table 1

Covered Bond Program Profile*	
Jurisdiction	Austria
Year of first issuance	2015
Covered bond type	Legislation-enabled
Outstanding covered bonds (mil. €)	295
Redemption profile	Conditional pass-through
Underlying assets	Commercial and residential mortgages
Credit enhancement required at the 'AA' rating level (%)	12.83
Available credit enhancement (%)	32.30

*Based on cash flow data as of Sept. 30, 2022. N/A--Not applicable.

Austrian Anadi Bank AG
Transaction Structure



Austrian Anadi Bank's conditional pass-through covered bond program was established in 2015. As of Sept. 30, 2022, the covered bonds outstanding in the program totaled €295 million. Since our last annual review in 2021, the covered bonds' outstanding amount has decreased. As of Sept. 30, 2022, the issuer had an outstanding issuance amount of €295 million mortgage covered bonds (down from €325 million as of our previous review; see "Transaction Update: Austrian Anadi Bank AG Mortgage Covered Bond Program," published on Nov. 17, 2021).The mortgage covered bonds are issued under Austria's Mortgage Bond Act "Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten (Pfandbriefgesetz)," and constitute direct unconditional and unsubordinated obligations of Austrian Anadi Bank.

If the issuer is unable to pay the covered bonds, their payment profile changes to pass-through, meaning that they are repaid as collections are received from the cover pool assets.

The underlying borrowers make their payments to a bank account in the issuer's name. In our view, this exposes the covered bonds to bank account and commingling risk because cash belonging to the cover pool is mixed with cash belonging to the issuer and could be lost if the issuer becomes insolvent. We have considered this risk in our analysis when determining the required credit enhancement at the 'AA' rating (see "Counterparty risk" below).

Assets and liabilities are denominated in euros. About 6.8% of covered bonds pay a fixed rate of interest, and the assets are mostly floating and are linked to different indices. As there are no derivatives registered in the cover pool, we have taken the resulting interest rate risk into account in our cash flow modelling.

Austrian Anadi Bank pays interest and principal on each series of covered bonds on the respective scheduled payment dates. The redemption of the covered bonds switches to pass through in the following instances (i) an issuer bankruptcy; (ii) a failure by the issuer to make payments under the covered bonds when due; and/or (iii) a breach of the asset coverage test (ACT), which remains unremedied for one month. The ACT is performed to determine if the OC is sufficient to support a 'AA' rating on the covered bonds. As of Sept. 30, 2022, we determined a required OC of 12.83%.

If the issuer fails to make payments under a series of covered bonds when due, only that specific series switches to a pass-through redemption, while a breach of the ACT leads to all series of covered bonds switching to pass-through.

In pass-through mode no further bonds can be issued. Payments on the covered bonds occur monthly using the collections received from the cover pool assets, and the legal final maturity date is extended by up to 50 years after the scheduled maturity date. We expect the issuer to maintain a legal final maturity date, which falls after the last maturity date of the assets.

The possibility to extend the maturity date, and to switch the bullet payment obligation into a pass-through payment, allows us to delink the ratings on the covered bonds from the credit worthiness of the issuer.

For so long as no issuer bankruptcy proceedings are initiated, Austrian Anadi Bank manages the cover pool. Upon initiation of bankruptcy proceedings against the issuer the assets recorded in the cover register form a separate estate and a special administrator is appointed by the bankruptcy court to manage the cover pool.

Table 2

Program Participants

Role	Name	Rating	Rating dependency
Issuer	Austrian Anadi Bank AG	NR	No
Arranger	Austrian Anadi Bank AG	NR	No
Account bank	Austrian Anadi Bank AG	NR	No
Trustee	Mag. Natascha Nehammer, Bundesministerium für Finanzen, Wien	NR	No

Table 2

Program Participants (cont.)			
Role	**Name**	**Rating**	**Rating dependency**
Servicer	Austrian Anadi Bank AG	NR	No
Principal paying agent and registrar	Austrian Anadi Bank AG	NR	No

NR--Not rated.

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.

Austrian Anadi's outstanding mortgage covered bonds were issued under the previous Austrian Pfandbriefgesetz (Mortgage Bond Act) while covered bonds issued from the program after the 7th of July 2022 are issued under Austria's new covered bond law ("Pfandbriefgesetz") which implements the EU's Covered Bonds Directive. The revised law merges the three current laws ("Hypothekenbankgesetz," "Pfandbriefgesetz," and the "Gesetz betreffend fundierte Bankschuldverschreibungen") into one, lessening the legal complexity for Austrian covered bonds.

Covered bonds that were issued before July 8, 2022, will not be required to fulfill the requirements of the new law, and we understand that Austrian Anadi's current outstanding bonds issued before July 8, 2022, will be grandfathered with the 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 new legislation 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 pool register subject to prior consent of the counterparty.

Under the new legislation, 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 commercial real estate. For commercial real estate, a limit of up to 70% is also possible. 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 setoff does not apply to derivative contracts, when netting occurs for receivables arising under one and the same master agreement.

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

If the issuer becomes insolvent, a bankruptcy court, after consultation with the Austrian regulator (the Financial Market Authority) will appoint a cover pool administrator to continue the cover pool's management and to 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 we would to the long-term ICR on Austrian Anadi Bank.

As is typical for conditional pass-through covered bonds, the detailed provisions applicable to Austrian Anadi Bank's covered bonds are established via the covered bonds' terms and conditions.

Operational and administrative risks

Austrian Anadi Bank is a small specialized Austrian retail and small and medium-sized enterprise/public bank with total assets of €2.730 billion (as of Dec. 31, 2021). It has 11 branches--ten in the Austrian state of Carinthia--its domestic market, and one in Vienna. By using a combination of branches, and online and mobile sales channels, Austrian Anadi Bank aims to expand its retail lending beyond its domestic market to entire Austria.

The issuer's business activities are exposed to economic or other factors influencing the economy of the Federal Province of Carinthia. In our analysis, we have taken this into account by assuming a higher default probability for mortgages concentrated in Carinthia.

The origination of mortgage loans occurs through Austrian Anadi Bank's branches and through mortgage agents in selected Austrian cities. We understand that the role of mortgage agents is limited to introducing the customer to the bank, whereas all loan origination and underwriting activities including borrower assessment, collateral valuation, loan documentation, and loan servicing are carried out exclusively in-house by Austrian Anadi Bank. The mortgage business mainly focuses on private individuals, building corporations (typically supported by Austrian states), or commercial entities.

The bank offers different types of residential mortgage loans: annuity or bullet with an accumulated fund, fixed- or floating-rate interest with monthly to yearly interest rate fixing, and loan durations of 20 to 30 years (maximum of 40 years) with a maximum repayment free period of two years. The maximum residential loan amount is €400,000 and the maximum (LTV) ratio is 105%. Only euro-denominated loans are granted. Properties can be in Austria and Germany. Commercial mortgage loans are granted in euro only and are either amortizing or bullet, or a combination of both.

As part of the origination process, the bank conducts affordability and credit history controls. Applicants for residential mortgage loans must provide proof of income, must be in an employment for at least six months, and have no negative credit history, among other considerations. Commercial mortgage loan applicants must provide financial statements for at least two years as well as interim financial statements and audit reports if available, among other documentation.

Furthermore, for commercial borrowers, the primary source of repayment must be the company's sustained operating cash flows. The bank analyzes commercial borrowers' credit quality using internal rankings.

Real estate property valuations are performed before loan origination and are updated every three years for residential loans, and annually for commercial loans. In this context, residential real estate values located in Austria are reviewed automatically using indexation based on the pricing database provided by the Austrian Chamber of Commerce. All commercial property values and residential properties located outside Austria are updated manually by external appraisers.

Based on our operational risk analysis, we believe that the ratings on the covered bonds are not constrained by operational risk.

We also 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 believe that the mortgage assets in the cover pool do not comprise product features that would materially limit the range of available replacement cover pool servicers.

Our analysis of operational risk follows the principles laid out in our covered bond ratings framework and our covered bonds criteria, as well as our global framework for assessing operational risk in structured finance transactions (see "Related Criteria").

Resolution regime analysis

Anadi Bank is domiciled in Austria, which is subject to the EU's BRRD. We assess the systemic importance for Austrian mortgage programs as very strong. Under our covered bonds criteria, this means the RRL is the higher of (i) the resolution counterparty rating on the issuer, (if any); and (ii) the long-term ICR on the issuing bank, plus up to two notches. 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 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.

Given that Austrian Anadi Bank is not rated, our analysis focuses on the program's structure, assets, and cash flow mechanisms.

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.

Our assessment of the expected jurisdictional support for Austrian mortgage programs is very strong. However, as the issuer is not rated, we rely solely on the collateral support analysis to assign our ratings.

Collateral support analysis

We base our credit analysis of residential mortgage assets on the specific adjustments defined for Austria under our global residential loans criteria, our analysis of commercial assets on our covered bonds commercial real estate criteria, and the analysis of the substitute assets on our public sector criteria (see "Related Criteria").

We base our credit analysis on loan-by-loan data as of June 30, 2022. The €375 million cover pool of mortgage loans is fairly granular. The cover pool comprises residential (67.82% of the total pool amount) and commercial mortgage loans including housing corporations (29% of the total pool amount) originated by Austrian Anadi Bank. All the residential loans are for purchase of owner-occupied properties. Since our previous review, the amount of residential mortgage loans has increased while it reduced for the commercial mortgages (see table 3). Most of the mortgages are provided to Austrian borrowers (97.1%) with the remainder to German borrowers. The issuer removes any loans in arrears (+90 days) from the pool.

Of the loans, about 80.1% pay a variable interest rate and are linked to different indices. The remainder includes fixed rate loans and loans that can switch from an initial fixed rate of interest to a floating rate of interest.

Substitute assets account for about 3.17% of the total pool of Austrian government bonds.

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

Table 3

Cover Pool Composition

	As of June 30, 2022		As of June 30, 2021	
Asset type	**Value (mil. €)**	**Percentage of cover pool**	**Value (mil. €)**	**Percentage of cover pool**
Residential	262.79	67.82	252.38	64.49
Commercial	112.38	29.00	122.490934	31.30
Substitute assets	12.30	3.17	16.47	4.21
Total	387.47	100.00	391.341457	100.00

Table 4

Key Credit Metrics

	As of June 30, 2022		As of June 30, 2021	
	Residential	**Commercial**	**Residential**	**Commercial**
Average loan size (€)	141,207	723,173	144,654.00	564,611.00
Weighted-average effective LTV ratio (%)*	82.08	N/A	81	N/A
Weighted-average original LTV ratio (%)	88.41	N/A	85.53	N/A
Weighted-average whole LTV ratio (%)	N/A	71.35	N/A	57.65
Weighted-average current LTV ratio (%)**	42.82	50.96	46.82	43.58
Weighted-average loan seasoning (years)§	5.03	N/A	4.74	N/A
Balance of loans in arrears > 30 days (%)	0.08	0.00	0.15	0
Variable interest rate (%, including loans that can switch from an initial fixed to a variable rate of interest)	97.32	98.65	97.47	92.85
Interest-only loans (%)	7.31	N/A	9.87	N/A
Fixed-float loans (%)	17.22	7.16	17.33	3.43
Second lien loans (%)	17.34	3.2	18.42	6.02
Self-employed borrowers (%)	8.7	N/A	10.97	N/A
Owner-occupied properties (%)	100	N/A	100	N/A
Jumbo valuations (property values that exceed €500,000) (%)	24.25	N/A	26.12	N/A
Credit analysis results				
WAFF (%)	20.21	24.37	22.04	22.23

Table 4

Key Credit Metrics (cont.)

	As of June 30, 2022		As of June 30, 2021	
	Residential	**Commercial**	**Residential**	**Commercial**
WALS (%)	18.17	36.40	20.22	30.5
Credit analysis results combined mortgage pool				
WAFF (%)	**21.68**		**22.1**	
WALS (%)	**24.17**		**23.79**	

*Calculated weighting 80% of the OLTV and 20% of the CLTV. 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. **Current LTV ratio 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. N/A--Not applicable.

Table 5

Loan-To-Value Ratios

	As of June 30, 2022 (%)				As of Sept. 30, 2021 (%)			
(%)	Effective LTV ratio (residential)*	Cover pool LTV ratio (residential)	Whole LTV ratio (commercial)	Cover pool LTV ratio (commercial)	Effective LTV ratio (residential)*	Cover pool LTV ratio (residential)	Whole LTV ratio (commercial)	Cover pool LTV ratio (commercial)
(0-40)	4.33	36.30	29.49	30.04	5.89	31.64	34.29	34.68
(40-50)	3.18	25.33	10.50	11.53	4.66	21.40	14.26	14.48
(50-60)	6.09	38.07	11.02	52.63	5.61	30.51	9.08	29.23
(60-70)	6.27	0.28	11.56	0.01	4.44	8.62	4.13	21.52
(70-80)	10.34	0.00	10.77	0.07	7.74	3.27	19.19	0.09
(80-90)	25.43	0.00	13.22	0.00	9.46	3.50	1.70	0.00
(90-100)	43.81	0.02	1.35	0.00	62.21	1.06	10.23	0.00
>100	0.55	0.00	12.09	5.73	0.00	0.00	7.10	0.00

*After S&P adjustments. LTV--Loan-to-value.

Table 6

Loan Seasoning Distribution*

	As of June 30, 2022	As of June 30, 2021
	Percentage of residential portfolio	
0-24	23.63	17.08
24-48	23.46	37.10
48-60	12.86	5.54
60-72	4.71	3.59
72-84	3.20	14.87
84-96	12.54	7.28
96-108	6.86	3.44
108-120	3.04	3.35
Above 120	9.63	7.62

*Seasoning refers to the elapsed loan term.

Table 7

Geographic Distribution Of Loan Assets

	As of June 30, 2021		As of June 30, 2021	
	Percentage of Austrian residential portfolio	Percentage of Austrian commercial portfolio	Percentage of Austrian residential portfolio	Percentage of Austrian commercial portfolio
Tyrol	0.5	8.65	0.38	0.49
Styria	15.81	3.88	16.08	2.52
Vienna	7.33	11.81	11.91	13.07
Salzburg	0.86	0.37	0.92	6.37
Carinthia	64.55	68.94	60.2	70.05
Burgenland	1.36	0.47	0.52	0.07
Lower Austria	6.44	0.57	6.35	1.07
Upper Austria	3.06	5.32	3.54	6.37
Voralberg	0.09	0.00	0.09	0.00

For each loan in the pool, our analysis estimated the foreclosure frequency and the loss severity and, by multiplying the foreclosure frequency by the loss severity, the potential loss associated with each loan. To quantify the potential losses associated with the entire pool, we calculated a weighted-average foreclosure frequency (WAFF) and a weighted-average loss severity (WALS) at each rating level. The product of these two variables estimates the required loss protection, in the absence of any additional factors. We assume that the probability of foreclosure is a function of both borrower and loan characteristics and will become more likely--and the realized loss on a loan more severe--as the economic environment deteriorates.

Overall compared to our 2021 annual review, our credit metrics have remained stable. As of June 30, 2022, we determined a WAFF of 21.68% (previously 22.10%) and a WALS of 24.17% (previously 23.79%). We based these metrics on the 'AA' credit stresses that we applied.

For the residential pool, our WAFF (20.21%) and WALS (18.17%) reduced, while for the commercial mortgages our WAFF (24.37%) and WALS (36.40%) increased (see table 4). The decrease in the residential WAFF is due to slightly increased loan seasoning, and slightly lower share of interest-only loans, self-employed loans, and second lien loans (see table 4).

The lower residential WALS is due to the lower current LTV ratios, and a decrease in the share of residential loans subject to a jumbo valuation adjustment (loans valued greater than €500,000; see table 4).

The commercial loan portfolio's higher WAFF results from higher whole loan LTV ratios. The commercial loan portfolio's WALS has increased due to higher current LTV ratios.

For the purpose of our cash flow analysis, we determined a weighted-average portfolio recovery period of about 26 months. The parameters determined in our credit analysis represent the input to our cash flow analysis.

Our analysis of the covered bond program's payment structure shows that cash flows from the cover pool assets at a 'AA' rating level are sufficient to make timely payments of interest and ultimate principal on the covered bonds on their legal final maturity.

We stress the cover pool's cash flows incorporating among other factors, various default patterns, default timings, various interest rate stresses, prepayment rates, and delinquencies assumptions.

The program has no hedges in place to mitigate interest rate risk. We have therefore taken interest rate risk into account, by modeling the collateral composition in our cash flow analysis considering the interest mismatch between assets and liabilities 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 that a percentage of the higher-yielding loans exit the portfolio.

In our cash flow analysis, we also sized for the fact that cover pool cash flows received prior to the insolvency of the issuer may be at risk, if these are not reinvested in the cover pool assets or used to make payments on the covered bonds (see "Counterparty risk").

As of Sept. 30, 2022, the available credit enhancement was 32.30%. The conditional pass-through structure, together with the documented level of OC, enables the program to achieve a 'AA' rating. According to our analysis, the required credit enhancement to achieve a 'AA' rating is 12.83% compared to 11.73% in our previous analysis. The increase is due to a decrease in the share of substitute assets and that variable interest rates have risen significantly since our last analysis. This change in market conditions increased the required credit enhancement, because about 93% of the bonds pay a floating interest rate, compared to about 80.1% of the assets paying floating.

Table 8

Collateral Uplift Metrics

	As of Sept. 30, 2022	As of Sept. 30, 2021
Asset WAM (years)	16.77	16.43
Liability WAM (years)	3.05 - extendible by 50	3.68 - extendible by 50
Available credit enhancement	32.3	15.38
Required credit enhancement for first notch of collateral uplift (%)	N/A	N/A
Required credit enhancement for second notch of collateral uplift (%)	N/A	N/A
Required credit enhancement for third notch of collateral uplift (%)	N/A	N/A
Target credit enhancement for maximum uplift (%)	12.83	11.73
Potential collateral-based uplift (notches)	Up to aa	Up to aa
Adjustment for liquidity	N	N
Adjustment for committed overcollateralization	N	N
Collateral support uplift (notches)	aa	aa

WAM--Weighted-average maturity. N/A--Not applicable.

Counterparty risk

Austrian Anadi Bank collects payments from borrowers in the cover pool via direct debit into an account in its own name. In the absence of any structural mitigants, we consider that there is a risk that cash collections received prior to the issuer's insolvency may be lost (i.e., commingled with the bank's general account balances), if they have not been reinvested prior to the issuer's insolvency.

We have stressed this risk in our analysis by assuming that two months of collections are lost, considering that the documentation allows for a one-month ACT cure period, and considering that following an ACT breach the next payment date on the covered bonds occurs on the 20th of each month.

As a result we believe that counterparty risk does not constrain the ratings on the covered bonds (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

Country risk

We analyze country risk according to our "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," Jan. 30, 2019. The cover pool primarily includes Austrian mortgages (AA+/Stable/A-1+) and German mortgages to a small extent (unsolicited; AAA/Stable/A-1+). Country risk does not constrain our current ratings on the covered bonds, as the covered bonds are rated lower than Austria and Germany.

Environmental, social, and governance factors

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	**G-1**	G-2	G-3	G-4	G-5
- N/A					- N/A					- Risk management, culture, and oversight.				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We consider environmental and social credit factors to have no material influence on our credit rating analysis of the mortgage covered bonds. The cover pool has a certain social aspect through a share of subsidized housing loans (housing corporations) in Carinthia ("Gemeinnütziger Wohnbau"). This exposure carries a lower base default frequency assumption, but as the share in the cover pool is currently small, we consider the effect on the cover pool's credit quality to be negligible. Governance is a positive consideration in our credit analysis of the mortgage covered bonds. The conditional pass-through structure mitigates refinancing risk, allowing us to delink the rating on the mortgage covered bond program from the issuer's creditworthiness, and reduces the credit enhancement required at each rating level. The issuer--via the asset cover test--must maintain OC in the program at a level commensurate with the current ratings on the covered bonds.

Related Criteria

- 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
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