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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

+

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

=

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

Major Rating Factors

Strengths

- Potential maturity mismatches between the 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.

We consider that the transaction documents, together with the Austrian legal and regulatory framework, effectively isolate the cover pool assets 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 covers a review of 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 (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Nov. 27, 2020). 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 from the reference rating level (RRL). However, as we don't 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 that are exposed to asset-liability maturity mismatch risk.

Our credit analysis is based on the asset information as of June 30, 2021, while our cash flow analysis is based on the asset and liability balances as of September 30, 2021. As of June 30, 2021, the portfolio comprises commercial mortgage loans (31.30%), residential mortgage loans (64.49%), and substitute assets (4.21%). 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 11.73%. 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, 2021, the available OC is 15.38%, down from 19.16% as of Sept. 30, 2020.

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.

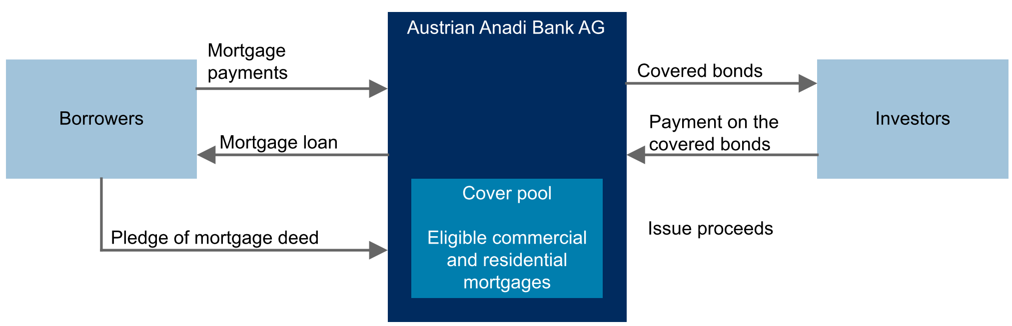
Program Description

Table 1

Covered Bond Program Profile*	
Jurisdiction	Austria
Year of first issuance	2015
Covered bond type	Legislation enabled§
Outstanding covered bonds (mil. €)	325
Redemption profile	Conditional pass-through
Underlying assets	Commercial and residential mortgages
Credit enhancement required at the 'AA' rating level (%)	11.73
Available credit enhancement (%)	15.38

*Based on cash flow data as of Sept. 30, 2021. §Austrian "Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten (Pfandbriefgesetz)". 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 June 30, 2021, the €375 million cover pool of mortgage loans comprises residential (64.5% of the total pool amount) and commercial mortgage loans (31.3% of the total pool amount) originated by Austrian Anadi Bank. As of Sept. 30, 2021, there are €325 million of covered bonds outstanding.

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.

Under the Austrian Mortgage Bond Act, if the issuer were to become bankrupt, the cover pool would be isolated from the issuer's remaining assets, and an administrator is appointed to manage the cover pool and to make payments on the covered bonds.

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 in an issuer bankruptcy. 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 15.4% of covered bonds pay a fixed rate of interest while 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 by the issuer to determine if the OC is sufficient to support a 'AA' rating on the covered bonds. As of Sept. 30, 2021, we determined a required OC of 11.73%.

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 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
Servicer	Austrian Anadi Bank AG	NR	No

Table 2

Program Participants (cont.)

Role	Name	Rating	Rating dependency
Principal paying agent and registrar	Austrian Anadi Bank AG	NR	No

NR--Not rated.

We have not observed any material changes in the cover pool that would affect the ratings on the covered bonds since our previous annual review (see "Transaction Update: Austrian Anadi Bank AG Mortgage Covered Bond Program," published Nov. 23, 2020).

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.

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, which is monitored by an independent trustee appointed by the FMA. The trustee authorizes the addition and removal of cover pool assets, cross checks the minimum OC required by the law, and authorizes new covered bond issuances.

The Mortgage Bond Act requires, a 2% minimum nominal OC. It also includes reporting requirements.

Furthermore, derivatives that serve the mitigation of interest rate, foreign exchange, and/or default risk may be registered in the cover pool with the consent of the trustee and the counterparty.

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.

From our legal 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 Austrian Anadi Bank.

In our view, the program is exposed to bank account risk. This is 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 by assuming that two months of collections are lost, considering the month of maximum potential collections. The Austrian Mortgage Bond Act excludes the right of debtors to set-off amounts owed to them by the issuer against cover pool assets, except for claims and obligations arising from derivative agreements. The cover pool does not include derivatives.

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 €2.566 billion (as of Dec. 30, 2020). 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 is carried out exclusively in-house by Austrian Anadi Bank. The mortgage business is mainly to 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 loan-to-value (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 prior to 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 we 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

Since our last review, we have updated the analysis of the residential mortgage loan portfolio based on the specific adjustments defined for Austria and Germany under our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019). We analyze the commercial portion of the cover pool using our commercial real estate criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

We base our credit analysis on loan-by-loan data as of June 30, 2021. The €375 million cover pool of mortgage loans is fairly granular. The cover pool comprises residential (64.5% of the total pool amount) and commercial mortgage loans including housing corporations (31.3% 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 to Austrian borrowers (99.6%) with the remainder to German borrowers. The issuer removes any loans in arrears (+90 days) from the pool.

The portfolio's combined weighted-average seasoning is about 5.35 years. For the combined pool of residential and commercial mortgages, we determined a weighted-average current LTV ratio including prior claims of about 46%. Additionally, we determined a weighted-average residential loan effective LTV ratio of about 81%. Under our global residential loans criteria, we calculate the effective LTV ratio by weighting 80% of the original LTV and 20% of the current LTV. This compares with a weighting of 100% on the original LTV ratio used previously, which is relatively higher.

Austrian property prices have risen over the past few years. House prices and income levels have tended not to move in tandem over the past years, leading to an overvaluation in the housing market, in our view. This overvaluation is incorporated in our loss severity calculation in line with our criteria.

Of the loans, about 83.4% are variable pay 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 4.2% of total pool comprising 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, 2021		As of Sept. 30, 2020	
Asset type	**Value (mil. €)**	**Percentage of cover pool (%)**	**Value (mil. €)**	**Percentage of cover pool (%)**
Residential	252.38	64.49	242.80	64.69
Commercial	122.49	31.30	125.55	33.45
Substitute assets	16.47	4.21	7.00	1.86
Total	391.34	100.00	375.35	100.00

Table 4

Key Credit Metrics

	As of June 30, 2021		As of Sept. 30, 2020	
	Residential	**Commercial**	**Residential**	**Commercial**
Average loan size (€)	144,654	564,611	129,653.80	354,069.01
Weighted-average effective LTV ratio (%)*	80.70	N/A	N/A	N/A
Weighted-average original LTV ratio (%)	85.53	N/A	80.95	N/A
Weighted-average whole LTV ratio (%)	N/A	57.65	N/A	49.85
Weighted-average current LTV ratio (%)**	46.82	43.58	52.94	39.01
Weighted-average loan seasoning (years)§	4.74	N/A	4.86	N/A
Balance of loans in arrears > 30 days (%)	0.15	0.00	0.00	0.00
Variable interest rate (%, including loans that can switch from an initial fixed to a variable rate of interest)	97.47	92.85	96.83	99.12
Interest-only loans (%)	9.87	30.54	10.78	15.46
Fixed-float loans (%)	17.33	3.43	17.54	3.29
Second lien loans (%)	18.42	6.02	17.20	12.08
Self-employed borrowers (%)	10.97	N/A	10.98	N/A
Owner-occupied properties (%)	100	N/A	100.00	N/A
Jumbo valuations (property values that exceed €500,000) (%)	26.12	N/A	18.58	N/A
Credit analysis results				
WAFF (%)	22.04	22.23	22.49	19.30
WALS (%)	20.22	30.50	28.76	27.67

Table 4

Key Credit Metrics (cont.)

	As of June 30, 2021		As of Sept. 30, 2020	
	Residential	Commercial	Residential	Commercial
Credit analysis results combined mortgage pool				
WAFF (%)	**22.10**		**21.46**	
WALS (%)	**23.79**		**28.40**	

Table 5

Loan-To-Value Ratios

	As of June 30, 2021 (%)				As of Sept. 30, 2020 (%)			
(%)	Effective LTV ratio (residential)*	Cover pool LTV ratio (residential)	Whole LTV ratio (commercial)	Cover pool LTV ratio (commercial)	Original loan total balance LTV ratio (residential)*	Cover pool LTV ratio (residential)	Whole LTV ratio (commercial)	Cover pool LTV ratio (commercial)
(0-40)	5.89	31.64	34.29	34.68	7.21	17.02	38.91	44.40
(40-50)	4.66	21.40	14.26	14.48	5.28	10.07	13.63	18.73
(50-60)	5.61	30.51	9.08	29.23	7.29	65.02	11.44	21.87
(60-70)	4.44	8.62	4.13	21.52	8.65	7.30	15.34	15.01
(70-80)	7.74	3.27	19.19	0.09	10.13	0.41	11.51	0.00
(80-90)	9.46	3.50	1.70	0.00	11.06	0.00	2.04	0.00
(90-100)	62.21	1.06	10.23	0.00	50.38	0.05	2.04	0.00
>100	0.00	0.00	7.10	0.00	0.00	0.11	5.09	0.00

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

Table 6

Loan Seasoning Distribution*

	As of Jun 30, 2021	As of Sept. 30, 2020
	Percentage of residential portfolio (%)	
0-24	17.08	19.22
24-48	37.10	29.05
48-60	5.54	4.70
60-72	3.59	15.40
72-84	14.87	11.37
84-96	7.28	5.16
96-108	3.44	4.32
108-120	3.35	2.86
Above 120	7.62	7.92

*Seasoning refers to the elapsed loan term.

Table 7

Geographic Distribution Of Loan Assets

	As of June 30, 2021		As of September 30, 2020	
	Percentage of Austrian residential portfolio (%)	**Percentage of Austrian commercial portfolio (%)**	**Percentage of Austrian residential portfolio (%)**	**Percentage of Austrian commercial portfolio (%)**
Tyrol	0.38	0.49	0.29	0.39
Styria	16.08	2.52	15.78	2.82
Vienna	11.91	13.07	13.73	11.55
Salzburg	0.92	6.37	0.91	2.62
Carinthia	60.2	70.05	59.94	71.77
Burgenland	0.52	0.07	0.72	0.06
Lower Austria	6.35	1.07	6.76	1.29
Upper Austria	3.54	6.37	1.71	9.49
Voralberg	0.09	0.00	0.17	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, for the residential pool our WAFF (22.04%) and WALS (20.22%) reduced, while for the commercial mortgages our WAFF (22.23%) and WALS (30.50%) increased (see table 4). We based these metrics on the 'AA' credit stresses that we applied.

The residential WAFF improved following the application of our global residential loans criteria. Under these criteria we use a lower "AA" base foreclosure frequency assumption for Austria. In addition, we apply multiples to the base foreclosure frequency based on the effective LTV ratios (versus original LTV ratios used previously). The residential loan weighted-average effective LTV ratio is 81%. There is a share of loans with relatively high LTVs that now attract lower adjustments to the base foreclosure frequency than under our previous criteria. This has been partially offset by the increase in the adjustment to the base foreclosure frequency for geographic concentration in Carinthia. We now apply 1.2 times increase to the base foreclose frequency of all residential loans in Carinthia exceeding our limit of 15% (about 45% of residential loans). By comparison, previously we applied 1.1 times increase to the entire exposure of loans in Carinthia (about 60% of residential loans).

Further contributing factors to the lower residential WAFF are a slight reduction in the share of interest only loans and loans that can switch from an initial fixed interest rate to a floating rate (payment shock).

The lower residential WALS is due to the reduction in current LTV ratios. This was partially offset by an increase in residential loans subject to a jumbo valuation adjustment (loans valued greater than €500,000) (see table 4).

The higher WAFF of the commercial loan portfolio is attributable to higher whole loan LTVs, which was partially offset by a reduction in the share of commercial loans subject to a regional concentration adjustment (loan exposures in Carinthia). The commercial loan portfolio's WALS has increased due to higher current LTVs.

For the purpose of our cash flow analysis, we have 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, 2021, the available credit enhancement is 15.38%. 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 11.73%. The main reason for the reduction in the required credit enhancement compared to our previous review is the decrease in the expected losses on the cover pool (driven by the reduction in the residential WAFF and WALS), and a lower stressed servicing fee of 35bps annually for residential loans under our global residential loan criteria. This compares to 50 bps previously.

Table 8

Collateral Uplift Metrics

	As of Sept. 30, 2021	As of Sept. 30, 2020
Asset WAM (years)	16.43	16.85
Liability WAM (years)	3.68 - extendible by 50	2.47 - extendible by 50
Available credit enhancement	15.38	19.16
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 (%)	11.73	12.26
Potential collateral-based uplift (notches)	Up to aa	Up to aa
Adjustment for liquidity	N	N
Adjustment for committed overcollateralization	N	N

Table 8

Collateral Uplift Metrics (cont.)

	As of Sept. 30, 2021	As of Sept. 30, 2020
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

We consider environmental and social credit factors to have a neutral influence on the credit quality of the bank's cover pool. 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. The covered bonds are issued under the Austrian Pfandbriefgesetz (Mortgage Bond Act), which does not require issuers to maintain liquid assets to cover at least 180 days of liquidity needs. Despite the law, we consider the CPT amortization feature supportive of the rating on the covered bonds. This feature mitigates refinancing risk, allowing us to de-link the rating on the covered bonds from the issuer's creditworthiness and reducing the credit enhancement required at each rating level. In addition, 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
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019

- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- 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
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