

BKS Bank AG's Austrian Covered Bond Program Assigned 'AAA' Rating; Outlook Stable

March 7, 2024

Overview

- We assigned our 'AAA' ratings to BKS Bank AG's mortgage covered bond program and related issuances.
- The stable outlook on the ratings reflects one unused notch of collateral-based support that 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.

MADRID (S&P Global Ratings) March 7, 2024--S&P Global Ratings assigned its 'AAA' credit ratings to BKS Bank AG's mortgage covered bond program and related issuances. The outlook on the ratings is stable.

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. Accordingly, we performed a legal and regulatory review, an operational risk review, a resolution regime analysis, a jurisdictional support analysis, a collateral support analysis, and a counterparty and sovereign risk analysis.

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 for the benefit of the covered bondholders. The protection of the cover pool assets and the continued management of the cover pool allows us to elevate the rating on the covered bonds above BKS's creditworthiness.

Based on our operational risk analysis, which covered a review of BKS Bank's lending process, 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.

BKS 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 BKS 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 have therefore assigned two notches of uplift above our assessment of BKS Bank'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

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jurisdictional support assessment for mortgage programs in Austria, we assigned three notches of uplift from the RRL to determine the jurisdiction-supported rating level (JRL).

We have reviewed the cover pool information provided as of Dec. 31, 2023. The €188 million of outstanding covered are secured by a €509 million cover pool comprising Austrian residential (94.84% of the cover pool balance) and commercial mortgage loans (5.16% of the cover pool balance).

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).

The current small size of the commercial mortgage loan subportfolio, comprising fewer than 150 nonrelated mortgage loans, implies that this portfolio is not necessarily in scope of our commercial real estate (CRE) criteria, "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015, and would likely require additional analytical considerations. Therefore, we have borrowed these criteria to analyze this portion of the portfolio because we believe the higher concentration risk of this subportfolio is already adequately captured through the application of a small pool adjustment factor to the default frequency of the commercial subportfolio as described in these criteria, which given the current composition of the pool, ultimately results in a default frequency assumption of 95%.

In our opinion, the use of the existing loss severity assumptions outlined in the CRE criteria represent a sufficiently robust approach to analyze the small sub-set of commercial mortgage loans in this cover pool. Finally, in our view, the underlying commercial mortgage loans exhibit characteristics similar to those generally observed in other rated covered bonds secured by CRE assets.

Based on our collateral support analysis, the available overcollateralization of 170.59% exceeds the target credit enhancement of 16.26% 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 with a required credit enhancement of 14.40%.

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.

Related Criteria

- 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

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- 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 Q1 2024, Dec. 15, 2023
- Austria 'AA+/A-1+' Ratings Affirmed ; Outlook Stable, Aug. 25, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Glossary Of Covered Bond Terms, April 27, 2018

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