

Bausparkasse Wüstenrot AG

Mortgage Covered Bonds

The AAA rating with a Stable Outlook assigned to the Austrian mortgage covered bonds issued by Bausparkasse Wüstenrot AG are based on the bank's sound issuer quality, enhanced by cover pool support based uplift. Cover pool support is the primary rating driver and benefits from a portfolio of granular domestic mortgage loans. Together with the programme's governance support, it provides seven notches of uplift above the issuer rating. Governance support reflects our assessment of the legal covered bond and resolution framework in Austria. Together, the programme benefits from a one-notch buffer against a deterioration of our credit view of Bausparkasse Wüstenrot AG.

Table 1: The covered bond programme

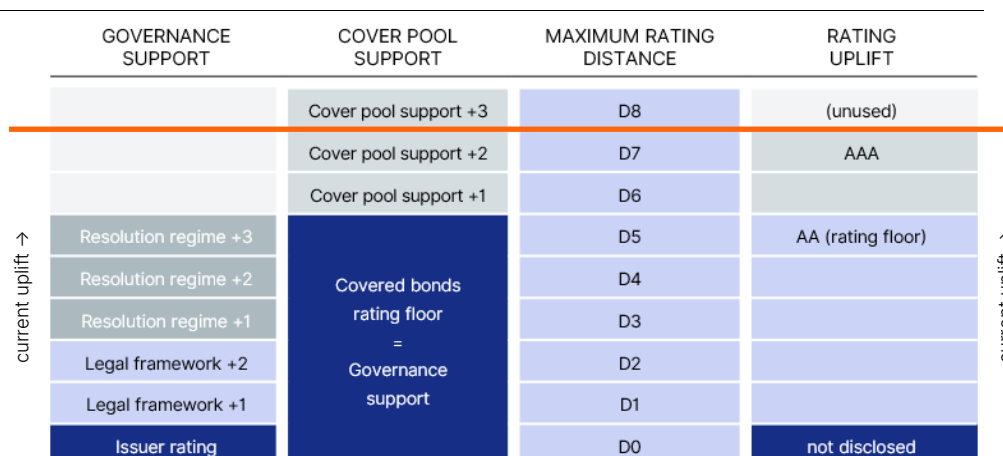
Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
31 Dec 2024	EUR 2.03bn	Residential mortgage loans	EUR 1.59bn	AAA/Stable

The bonds are covered by a granular portfolio of domestic residential mortgage loans. Concentration is low with the top 10% accounting for only 0.33% and the securing properties being well spread in Austria. The cover assets benefit from a moderately low loan-to-value (eligible loan to lending value) of 51%. The loans' seasoning stands at 6.2 years with a remaining term of 25.7 years, on average.

Market risks are driven by maturity and interest rate mismatches. The Scope calculated weighted average life (WAL) of cover assets of 14.1 years compares to 5.8 years of the liabilities. The bonds do not benefit from any optional maturity extension clause. However, available substitute assets could soften maturity mismatches in case of a recourse to the cover pool.

Interest rate mismatches are moderate and not hedged. 97.2% of fixed rate covered bonds compare to 82.6% of fixed rate mortgage loans. However, the fixed rate mortgage loans are not fixed for life but typically reset after 10-15 years. Most of the fixed rate mortgages benefits from rate caps after interest reset date. The covered bonds are not exposed to FX risks as all assets and bonds are denominated in EUR.

Figure 1: Covered bond rating building blocks



Covered bond rating

AAA

Outlook

Stable

Rating action

Affirmation

Last rating action

4 Mar 2025

Issuer rating

not disclosed

Last issuer rating action

not disclosed

Last issuer rating action date

not disclosed

Lead Analyst (covered bond)

Mathias Pleißner
 +49 69 66 77 389-39
m.pleissner@scoperatings.com

Lead Analyst (banks)

Milya Safiullina, Frankfurt
 +49 69 66 77 389-18
m.safiullina@scoperatings.com

Related research

Scope affirms Bausparkasse Wüstenrot AG's Austrian covered bond rating at AAA, Stable Outlook, March 2025
[more research →](#)

1. Stable Outlook

Scope’s Stable Outlook on the mortgage covered bonds reflects the Outlook on our private issuer rating and the strength of the cover pool, which could provide additional uplift. The rating may be downgraded upon: i) an issuer rating downgrade by more than one notch; ii) a deterioration in Scope’s view on governance support factors relevant to the issuer and Austrian covered bonds in general and on the interplay between complexity and transparency, and/or iii) the inability of the cover pool to provide an additional uplift in case the issuer rating is downgraded.

2. Changes since the last performance update

Changes are limited since we have last analysed the programme twelve months ago. Credit risk remained relatively stable. Interest rate mismatches slightly declined as the share of fixed rate mortgage loans increased to 82.6% from 80.0%. 97.2% of the bonds are fixed rate. Maturity mismatches increased from a lower remaining life of the assets, down by a year to 5.8 years.

Our credit view in Wüstenrot Bausparkasse AG remained unchanged supported by its stable and profitable business model.

3. Rating drivers and mitigants

Positive rating drivers	Negative rating drivers and mitigants
<ul style="list-style-type: none"> • Strong legal covered bond framework • Moderate to strong Resolution regime and systemic importance analysis only constrained by moderate to low systemic relevance of Wüstenrot • Potential deterioration of the issuers credit quality can be buffered with one unused notch from cover pool support 	<ul style="list-style-type: none"> • Governance support uplift constrained by the issuer’s size and relevance
Upside rating-change drivers	Downside rating-change drivers
<ul style="list-style-type: none"> • The ratings are on the highest level achievable • Additional issuer downgrade cushion could further arise from a rating upgrade of the issuer or a higher systemic relevance of Wüstenrot 	<ul style="list-style-type: none"> • The rating may be downgraded upon an issuer downgrade by more than one notch • The rating may also be downgraded upon a deterioration of our assessment related to the programme’s governance support factors and/or the interplay between complexity and transparency by together more than one notch • The rating may also be subject to a downgrade if the cover pool is unable to provide an additional uplift in case the issuer rating is downgraded or our governance analysis deteriorates

4. The issuer

We maintain and monitor a private issuer rating on Bausparkasse Wüstenrot AG. For more information on the issuer please refer to section 12, Issuer credit view.

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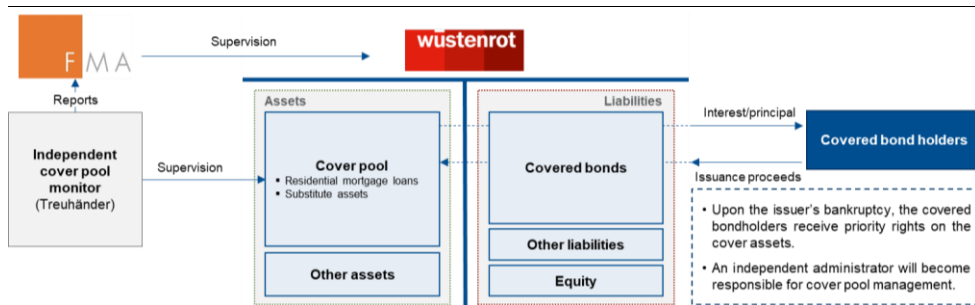
5. Programme structure

Covered bond issuance is governed by the Austrian Covered Bond Act (PfandBG) which implements the EU's Covered Bond Directive entered into force on July 8, 2022. This applies to all Covered Bonds issued from July 8, 2022. Wüstenrot has updated its debt issuance program to reflect the amended legislation and does since then issue covered bonds under the new covered bond law. As a bank and covered bond issuer, Wüstenrot is supervised by Austria's Financial Market Authority (FMA).

On balance sheet structure:
Registered cover assets receive the status of a special estate

Cover assets remain on the bank's balance sheet as long as the issuer is solvent. If issuer insolvency proceedings are started, the cover assets receive the status of a special estate (Sondermasse), which segregates it from the remaining insolvency estate of the bank. For more details, see our legal framework analysis.

Figure 2: Issuance structure



Source: Scope Group GmbH

6. Governance credit support analysis

Governance credit support is a key rating driver for Wüstenrot's mortgage covered bonds. It provides an uplift of five notches. It combines our view on the legal framework for mortgage covered bonds in Austria together with our assessment on the Austrian resolution regime and the systemic relevance for covered bonds in general and specific to Wüstenrot.

Together five notches from legal framework and resolution regime

6.1 Legal framework analysis

We consider the Austrian's covered bond framework to be strong, fully meeting our criteria for protecting investors. Therefore, we assign the highest credit differentiation of two notches. The relevant legal framework is based on the Covered Bond Act (Pfandbriefgesetz or PfandBG). The legislation came into force on 8 July 2022, transposing the European Covered Bond Directive into local law. Issuances made before are not required to fulfil the requirements of the Austrian Covered Bond Act and are grandfathered with their original terms and conditions.

Two notches reflecting strong legal framework

Segregation of cover pool upon insolvency

The Austrian framework benefits from an 'on-balance sheet' cover pool. Cover assets are ringfenced by registration in the cover register ensuring a legally valid, binding and enforceable segregation upon the issuer's insolvency. Setting off against the cover pool is not allowed. When the issuer becomes insolvent, the cover pool receives the status of a special estate (Sondermasse), which segregates it from the remaining insolvency estate. The insolvency of the issuer will generally not impact the structure, terms and conditions of loans granted or the covered bonds issued. Covered bonds will not accelerate upon the insolvency or resolution of the issuer. If proceeds from the sale of cover pool assets are insufficient to repay the covered bonds, investors have third recourse to the general insolvency estate of the issuer.

Ability to continue payments after issuer insolvency

The Austrian Covered Bond Act highlights that resolution or insolvency of the issuer will not affect the ability to make the promised payments on covered bonds or derivatives in the cover pool. Following insolvency of the issuer, Austria's financial market supervisor (FMA) appoints a special

administrator (besonderer Verwalter), that is responsible for managing the cover pool and to ensure full and timely payment of covered bonds according to their terms and conditions.

Asset eligibility and risk management principles

The Austrian framework ensures high standards regarding asset eligibility and replacement criteria. For mortgage covered bonds it allows for residential and commercial assets within the EEA, Switzerland and the United Kingdom. Underlying properties must be adequately insured against physical damage and the insurance must be part of the cover pool. Building plots and buildings under construction are eligible for up to 10% of the cover pool. Substitute and liquid assets (max. 15% of the covered bonds outstanding) can comprise exposures to eligible public-sector issuers, financial institutions, deposits and cash. Residential mortgage loans are eligible up to 80% of the properties' market or mortgage lending value; commercial mortgage loans are eligible up to 60% of the properties' market or mortgage lending value. However, the full loan amount is part of the cover pool register. Property valuation must be conducted by a party not involved in the mortgage lending process and shall be current at the time of inclusion into the cover pool. Values of commercial properties must be monitored at least once a year, at least every three years for residential properties.

Liquidity risk can be managed by issuing soft-bullet covered bonds. Only if such soft-bullet bonds are issued, the special administrator can have sole rights to extend the maturity of a covered bond by up to 12 months. In addition, the issuer is required to maintain sufficient amounts of highly-liquid assets in the cover pool to cover shortfalls for at least 180 days. Shortfalls are calculated based on the initial maturity date.

The Covered Bond Act does not provide explicit guidance on the management of other market risks. However, issuers must ensure that a dedicated covered bond risk management department is independent from the operating business and has the relevant knowledge and capacities to monitor, assess and manage the risks of the covered bond programme. Derivatives can be registered and rank pari-passu with covered bonds.

For now, Wüstenrot has not issued soft bullet bonds but addressed liquidity risks by maintaining liquid, high quality substitute assets. Due to special regulation for saving banks covered bond funding is subject to limits. Encumbered assets must not exceed 30% of total assets. For Wüstenrot, total outstanding covered bonds account for around 23%.

Programme enhancements remain available

Neither a regulatory action nor an issuer's event of default impacts the ability to manage the covered bond structure. The special administrator has the right to collect payments, sell cover assets and enter bridge financings, if necessary. Derivatives in the cover pool will not terminate upon the issuer's insolvency and will remain available to service the covered bond programme.

Austrian covered bonds must provide a mandatory minimum nominal overcollateralisation (OC) of 2% in addition to expected wind-down costs; generally, also quantified at 2%. This will effectively provide for a minimum nominal OC of 4% that issuers need to maintain. Issuers can commit to higher OC levels, either on a nominal or net present value basis. Upon issuer insolvency, excessive or not explicitly committed OC above the legal minimum may be returned to the general insolvency estate. However, it will generally be challenging to prove what amounts are deemed excessive. In addition, every removal of cover assets from the cover register and every new issue must be approved by the trustee. This was also evidenced with the failed Hypo Alpe Adria Bank. Even though their covered bonds had recourse to a very high level of OC, such were not released to increase the potential recoveries of unsecured debtholders.

Covered bond oversight

The FMA must approve covered bond issuance programmes. After the approval is granted by the FMA in co-operation with the Austrian National Bank (OeNB), regulators and supervisors perform special oversight over the programme. The FMA has the right to order special audits on the cover pool and can also order the issuer to carry out corrective measures. In addition, issuers have to appoint either an internal or external trustee (Treuhand). The internal trustee would be represented by the risk management department. The trustee must ensure that cover assets

comply with regulations, sign off (de)- registration of cover assets, hedging agreements and the issuance of new covered bonds. Where a breach has occurred or where the trustee sees the quality of the cover pool at risk, the trustee has to notify the FMA immediately. The issuer's insolvency will not impact the trustee's role and duties to avoid negative impacts from adverse management. Upon the issuer's insolvency, the insolvency court appoints a dedicated special administrator tasked with managing the cover pool (with the FMA's approval). The special administrator can be complemented by a 'Kurator', who represents joint covered bond holders.

6.2 Resolution regime analysis

Wüstenrots' covered bonds benefits from the country's transposition of the Bank Recovery and Resolution Directive that explicitly excludes covered bonds from being bailed in. It also benefits from the relevance of covered bonds within the country and a strong stakeholder community. Our assessment is limited by the size and relevance of Wüstenrot as an Austrian bank and mortgage covered bond issuer. This assessment translated into three notches, out of the four notches achievable.

Three notches reflecting resolution regime and systemic importance

Availability of statutory provisions

With the 1 January 2015 enactment of the Federal Act on the Recovery and Resolution of Banks (BaSAG), Austria implemented the EU's Bank Recovery and Resolution Directive (BRRD). Austria was among the first to actively use the restructuring provisions and demonstrated how such provisions can work in favour of covered bond investors.

Strength of statutory provisions

The Austrian framework defines certain statutory provisions in line with the European Framework. It explicitly determines tools that are available to authorities to resolve a failing institution. As such the bank or certain businesses may be sold, a bridge institution established, assets separated, or liabilities being bailed in. As far as covered bonds are concerned, the national transposition of Article 55 of the BRRD into Article 86 (2) of the Austrian Recovery and Resolution Act exempts secured liabilities such as covered bonds from bail-in. The exemption is limited to the extent of the value of the outstanding bonds.

Systemic importance of issuer

Wüstenrot's business model, systemic importance, liability and capital structure in principle allows the use of available resolution tools if needed. At the same time, the small size of the issuer and its moderate to low systemic importance (see below) makes a sale of business or an orderly wind-down more likely compared to a going concern as a mortgage covered bond issuer in Austria.

Systemic relevance of Wüstenrot as a covered bond issuer is assessed to be moderate to low. As Austria's third largest building society, Wüstenrot benefits from strong brand recognition as the oldest and only remaining independent building society in Austria. However, as niche players, Austrian building societies only have limited product offering and suffered from an interest environment that has made their savings products less attractive to retail clients in the past. With assets at around EUR 7bn as of year-end 2023, Wüstenrot is a relatively small player in the Austrian market but benefits from a significant market share in the highly regulated building deposit market. The granting of a banking license in 2022 marks a milestone in the expansion and complementation of the business into a bancassurance provider offering banking, building society and insurance products from a single source. On the other hand, interconnectedness remains low. Wüstenrot is mainly regulated by the FMA. As a building society, Wüstenrot is also subject to specific Austrian building society regulation governing lending and deposit taking.

Systemic relevance of covered bonds

We classify Austrian mortgage covered bonds with a moderately high systemic relevance. As of end-2024, the outstanding volume accounted for more than 23% of Austrian GDP, which puts it into the upper third among European peers. 2023 was a record year in new mortgage covered bond issuance accounting for EUR 21.7bn which compares to EUR 7.1bn ten years ago. Twenty-

two banks, comprising all large and most mid-size banks in Austria, are licensed to issue covered bonds. The number of 37 active covered bond programmes indicates that most issuers use both mortgage and public-sector covered bonds, as well as different programmes under the previous legislative frameworks. Austrian covered bonds are now increasingly placed with international investors, evidencing their importance to the issuers' funding toolkit.

Proactive stakeholder community

Austrian stakeholders have demonstrated regularly that they are strongly interested in a functioning covered bond market and are willing to support an orderly resolution in case of a distressed issuer. The 'Banks and Insurance' section of the Austrian Federal Economic Chamber (Wirtschaftskammer Österreich or WKO) has become the main platform for issuers to discuss their interests. provides information on the market, especially for international investors, and further aligns brand presence. WKO also represents issuers within the 'European Covered Bond Council', the European industry lobby. Supervisors have honored the BRRD in previous situations and covered bonds have not been impacted.

7. Cover pool analysis

Wüstenrot’s mortgage covered bond ratings are cover pool-supported, providing two of the seven notches of uplift needed to achieve the highest rating. Governance support provides for a five-notch rating uplift and an effective floor against a deterioration in cover pool credit quality.

7.1 Cover pool complexity (CPC) assessment

Our assessment on the interplay between complexity and transparency translates into a CPC category of ‘low’ which allows for up to three additional notches above the issuer rating enhanced by governance support. The combined credit support could allow to maintain the covered bond rating at the highest level under a hypothetical deterioration of our credit view on the issuer by up to one notch, assuming OC does not become a constraining factor.

The CPC category of ‘Low’-risk stems from Wüstenrot’s management of the interplay between complexity and the level of transparency provided to stakeholders. Wüstenrot’s covered bonds benefit from low complexity due to its high granularity and common loan types. Our assessment takes into account the mandatory cover-pool disclosures that have to be published on the issuer’s website, at least on a quarterly basis. Effectively, most Austrian issuers including Wüstenrot provide such information using the ECBC’s ‘Harmonised Transparency Template’ or its Austrian surrogate, the ‘Austrian Transparency Template’. In addition, we receive information on the bank’s lending products; underwriting and credit risk procedures and benefit from high visibility on origination and issuance strategy as well as to all relevant counterparty risk information.

7.2 Cover pool composition

Wüstenrot’s mortgage covered bonds are secured by a portfolio of domestic and well-distributed residential mortgage loans across Austria. The low and relatively stable weighted average loan-to-value (LTV) ratio of 51.0% on an eligible-loan basis and the moderate whole-loan LTV ratio indicate a moderate-strong protection against credit losses in the event of borrower default. Although the whole loan secures outstanding covered bonds, only the eligible portion determines the maximum amount of bonds that can be issued. The Austrian Covered Bond Act stipulates a maximum (eligible) LTV ratio of 80% for residential mortgage assets. Wüstenrot limits mortgage loans to an eligible LTV ratio of 60% on a voluntary basis.

82.6% of the mortgage loans are fixed, which compares to 80% nine months ago. However, these loans are not fixed for life. The average remaining time to interest reset stands at 13 years, which compares to an average time to final maturity of the mortgage loans of 26.2 years. This exposes the mortgage loans to some interest rate risks. However, most of the bank’s mortgage loans have embedded interest rate caps and floors, mitigating strong interest rate sensitivity after interest reset. The pool has no relevant concentrations and is very granular.

Cover pool characteristics

Reporting date	Dec 2024	Mar 2024
Balance (EUR bn)	2.03	2.05
Residential (%)	98.5	98.3
Substitute (%)	1.5	1.7

Property type (%)

Reporting date	Dec 2024	Mar 2024
Single/double-family house	65.0	65.1
Apartment	31.1	30.8
Multifamily	1.7	1.7
Others	2.3	2.4

General information

Reporting date	Dec 2024	Mar 2024
No. of loans (tsd)	16.6	16.7
Avg. size (EUR tsd)	120.7	120.0
Top 10 (%)	0.3	0.3
Remaining life* (years)	13.0	12.5
WA whole-loan LTV (%)	64.4	68.5
WA eligible-loan LTV (%)	51.0	51.3

*Scope calculated

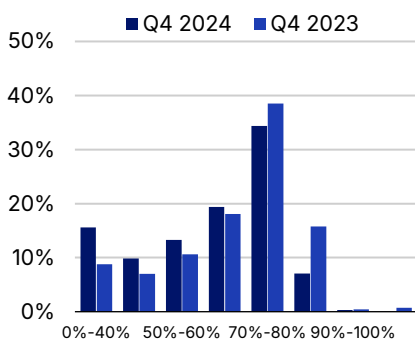
Interest rate type (%)

Reporting date	Dec 2024	Mar 2024
Floating	17.4	20.0
Fixed	82.6	80.0

Repayment type (%)

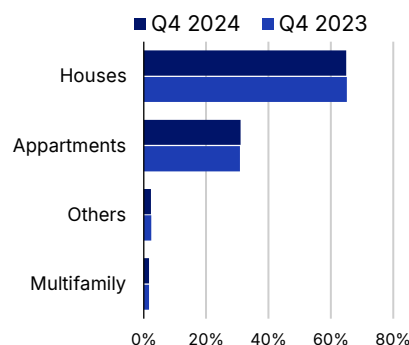
Reporting date	Dec 2024	Mar 2024
Annuity	100.0	100.0
Interest-only	0.0	0.0

Figure 3: LTV distribution (whole loan)



Source: Scope Ratings, Wüstenrot

Figure 4: Property type distribution



Source: Scope Ratings, Wüstenrot

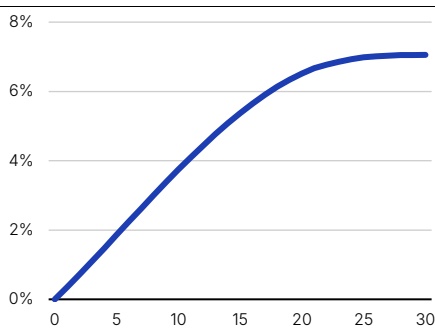
7.3 Asset risk analysis

The cover pool’s credit quality remains strong. Our projection of default applicable to granular mortgage loans uses an inverse Gaussian distribution. Our analysis is based on publicly available credit performance data together with the bank’s internal scores provided on a loan-by-loan basis and mapped to our ratings scale, market performance and benchmarking.

Taking into consideration the mortgage loan’s seasoning and lifetime amortisation, the programme’s annualised term default rate translates into 0.50%. We have further derived a coefficient of variation of 50% for the mortgage assets. This sizes for the bank’s general risk appetite as well as the characteristics of the mortgage portfolio.

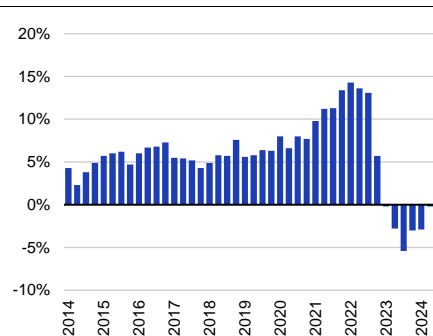
Strong cover pool quality from a portfolio of granular domestic residential assets

Figure 5: Expected term defaults, cumulative (DP/years)



Source: Scope Ratings

Figure 6: House price growth in Austria, annual rates of change



Source: Statistics Austria

We calculate a recovery rate of up to 100% under a base case scenario (D0). In the most stressful scenario (D8), we estimated a recovery rate of 82%. The recovery rate also benefits from the moderate-low loan-to-lending value of 51% as of December 2024.

Our MVD assumptions are derived based on a quantitative analysis of the Austrian house price indices. Austrian house prices have experienced a historical depreciation in 2023 but recovered recently, showing moderate growth again.

We gave credit to the conservative calculation of the Austrian lending value (Belehnwert) by adding 10% of value before we have applied our stressed security value haircuts.

Further we kept our fire-sale discounts for Austria unchanged at 20%. The fire-sale discount is applied to properties sold under non-standard market or distressed conditions. In our recovery analysis we do further size for sale costs of 10% (by distressed property value).

Our base market value decline assumption stands at 0.

Austrian security value haircuts

Region	Base MVD	Stressed MVD	Firesale discount	Sale costs	Stressed SVH
Austria	0%	44.5%	20%	10%	60.0%

MVD: market value decline / SVH: security value haircut

Due to their low relevance, we have disregarded the substitute assets from our asset risk analysis. Therefore, we consider only the credit risk (and cash flows) of the primary collateral – the mortgage loans.

7.4 Cash flow risk analysis

The unchanged rating-supporting OC of 6% reflects the mortgage programme’s sensitivity to a combination of low prepayments (1%) with a stressed lower-for-longer interest rate scenario. This is mainly driven by interest rate mismatches from floating (or resetting) mortgage loans which compare to 97.2% of fixed rate covered bonds.

Supporting overcollateralisation of 6% allows for highest ratings and is well below the oc maintained

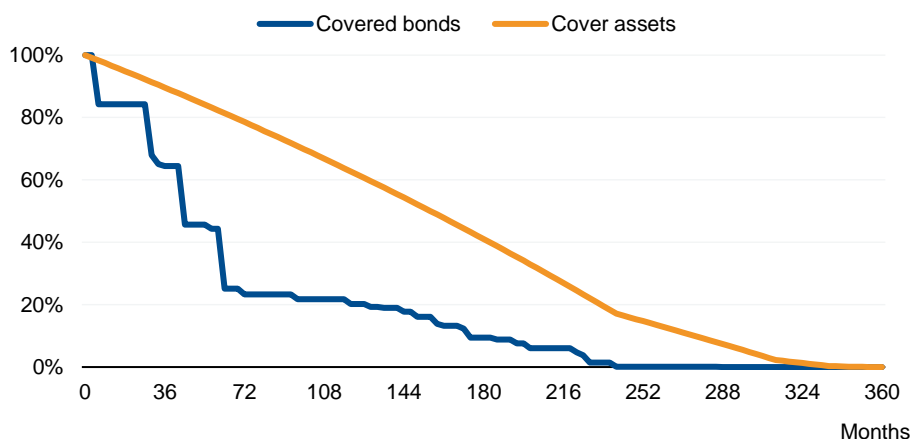
As such, low interest rates will stress the programme’s excess spread when fixed mortgage loans reset at a lower rate. At the same time low prepayments drive asset sales under discount to repay maturing bonds as the liabilities’ WAL of 5.8 years compares to a calculated WAL under the assets of 14.1 years.

Cover pool support could provide additional rating stability. Our cash flow analysis shows, that if the issuer would be downgraded by one notch, the currently maintained nominal overcollateralisation of 27.7% would still be sufficient to support the highest achievable rating on the mortgage covered bonds.

In the event of recourse to the cover pool and where available asset cash flows are not sufficient to pay the bond’s maturing liability, we have assumed stressed asset sales used to cure liquidity shortfalls. We have applied a 150bp refinancing spread for the Austrian mortgage loans, which constitute of private domestic residential.

For the mortgage loans, we have built an amortisation schedule reflecting the reported seasoning and repayment structure. We have modelled fixed loan resets according to the individual reset date and assumed such loans to convert into floating rate with a margin equivalent to the current floating margin – interest caps have been disregarded in our base case. The liability profile was established based on line-by-line data provided.

Figure 7: Amortisation profile



Source: Scope Ratings

In addition, we have assessed the impact of a 15% high prepayment scenario and 1% for low prepayments. Servicing fees are 25bp. Default timing was assumed to follow the scheduled amortisation profile with a recovery lag of 24 months. There is no foreign exchange risk as assets and liabilities are denominated in EUR.

Asset-liability mismatches

	Assets	Liabilities
EUR	100%	100%
Fixed	82.6%	97.2%
Floating	17.4%	2.8%
WAL (years)	14.1*	5.8

*calculated

We complemented our base case cash flow results with additional analysis, testing sensitivities to interest rate caps, loan refinancing at current fixed spot rates, time subordination and frontloaded defaults.

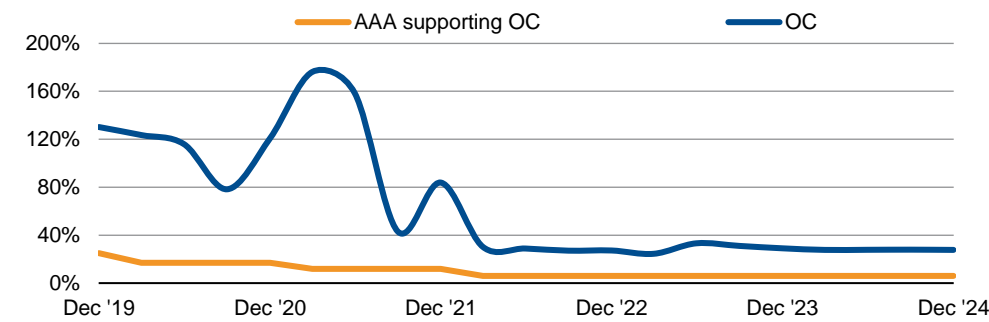
8. Availability of overcollateralisation

The sound private rating of Wüstenrot allows us to account for the provided OC. Wüstenrot typically provides significantly higher levels of OC compared to the minimum stipulated by the legal framework (currently 2% plus wind down costs). This demonstrates the issuer’s willingness and ability to support the covered bond programme’s strong credit quality.

Supportive level of available overcollateralisation fully taken into account

We are not aware that any change to the programme may alter its risk profile or reduce the available OC to levels that would no longer support the current rating uplift.

Figure 8: Available OC versus current rating-supporting level



Source: Scope Ratings

9. Other risk considerations

The rated covered bonds have counterparty exposures to Wüstenrot’s roles as originator, servicer, account bank and paying agent. No documented replacement mechanisms would automatically shield the covered bonds from a credit deterioration due, for instance, to the counterparties providing bank accounts. However, in such a scenario we believe the strong alignment of interests between the bank and covered bondholders would prevent negative impacts before a regulator intervenes. We also take a positive view of the fact that most collections are made via direct debit, allowing for a relatively swift redirection of payments if needed.

Counterparty exposure does not limit the rating

In addition, we expect that a regulatory intervention in Wüstenrot would involve the use of available resolution tools with the aim of maintaining the issuer. We do not expect the active management and servicing of the cover pool to be severely impacted in such a scenario.

Country risk is not a key risk factor that constrains the covered bond rating. Austria is currently rated AA+/Stable by Scope. We have no evidence that transfer risk (e.g. risk of capital controls), convertibility risk (e.g. risk of eurozone exit), the risk of an institutional meltdown are pertinent risk factors for Austria.

Country risk not a key rating driver

Governance factors are key for the analysis of Austrian covered bonds as such drive our legal and resolution regime analysis. In addition, our CPC category measures the issuer’s management of the interplay between complexity and the level of transparency provided to investors which allows for the maximum additional cover pool support uplift of three notches.

Governance factors are key drivers and reflected in our governance uplift and CPC assessment

We have not directly included environmental and social aspects in our rating of the covered bonds issued by Wüstenrot. The issuer currently does not apply specific ESG underwriting guidelines that provide for adjustments to the terms and conditions of a mortgage loan if minimum ESG conditions are met/not met. Similarly, information provided on collateral does not allow us to determine energy efficiency or differences in recovery proceeds.

10. Sensitivity analysis

Wüstenrots' mortgage covered bond ratings do benefit from a buffer against an issuer downgrade of up to one notch. Assuming the issuer's willingness to support the highest ratings as well as a stable covered bond programme risk profile, a one-notch downgrade would increase the rating-supporting OC requirement to 7%.

As a consequence, the rating may be downgraded upon: i) a downgrade of our credit view on the issuer by more than one notch; ii) a deterioration in Scope's view on governance support factors relevant to the issuer and Austrian covered bonds in general and on the interplay between complexity and transparency, and/or iii) the inability of the cover pool to provide an additional uplift in case the issuer rating is downgraded.

One notch buffer against a deterioration of our credit view on the issuer

11. Summary of covered bond characteristics

Reporting date	31 Dec 2024	31 Dec 2023
Issuer name	Bausparkasse Wüstenrot AG	
Country	Austria	
Covered bond name	Hypothekendarlehen	
Covered bond legal framework	Austrian legal covered bond framework (Pfandbriefgesetz)	
Cover pool type	Residential mortgage loans	
Composition	Residential = 100%	Residential = 100%
	Substitute = 0%	Substitute = 0%
Issuer rating	Not disclosed	Not disclosed
Current covered bond rating	AAA/Stable	AAA/Stable
Covered bond maturity type	Hard bullet	Hard bullet
Cover pool currencies	EUR (100%)	EUR (100%)
Covered bond currencies	EUR (100%)	EUR (100%)
Governance support	5	5
Maximum additional uplift from cover pool complexity score	3	3
Maximum achievable covered bond uplift	8	8
Potential covered bond rating buffer	1	1
Cover pool (EUR mn)	2,031.0	2,045.9
thereof, substitute assets (EUR mn)	31.0	34.0
Covered bonds (EUR bn)	1,590.4	1,585.4
Overcollateralisation: current/legal minimum ¹	27.7%/ 2%	29.1% / 2%
Overcollateralisation to support current rating	6%	6%
Overcollateralisation upon a one-notch issuer downgrade	7%	7%
Weighted average life of assets	14.1 years	12.5 years
Weighted average life of liabilities	5.8 years	6.8 years
Number of loans	16,568	16,704
Average loan size (EUR mn)	120.7	122.0
Top 10 residential	0.3%	0.3%
Interest rate type assets	Floating 17.4%	Floating = 20%
	Fixed 82.6%	Fixed = 80.0%
Interest rate type liabilities	Floating 2.8%	Floating = 2.8%
	Fixed 97.2%	Fixed = 97.2%
Weighted average loan to lending value (eligible loan, Scope calculated)	51.0%	51.3%
Weighted average loan to lending value (whole loan)	64.4%	68.5%
Geographic split (top 3)	Austria = 100%	Austria = 100%
Default measure	Inverse Gaussian	Inverse Gaussian
Weighted average default rate (mortgage)	50bps	60bps
Weighted average coefficient of variation (mortgage)	50%	50%
Weighted average recovery assumption (D0/D7) ² (mortgage)	100%; 82.0%	99.5%; 87.6%
Share of loans > two months in arrears (NPL)	0.0%	0.0%
Interest rate stresses (max/min; currency-dependent)	-1 to 9%	-1 to 10%
FX stresses (max/min; currency-dependent)	n/a	n/a
Max liquidity premium	150bps	150bps
Average servicing fee	25bps	25bps

Source: Scope Ratings

¹ Plus 2% covering for wind-down costs

² D0 and D8 denote the stresses commensurate with the rating distance between our credit view on the issuer and the covered bond ratings.

12. Issuer credit view

Our credit view on Wüstenrot reflects the following assessments:

Wüstenrot is part of the Austrian cooperative Wüstenrot Group, which offers home financing, savings products, checking accounts, life and non-life insurance products (including health and mobility insurance) as well as investment products. The building society focuses on long-term, subsidised saving products. Such proceeds are used to grant retail mortgages, which Wüstenrot originates through third-party banks and its own nationwide network of financial advisors. In addition, the insurance subsidiary develops life and non-life insurance products that are sold through its own network. Wüstenrot is a relatively small player in the Austrian market but benefits from its strong brand recognition as the oldest building society in Austria.

With the digital Wüstenrot Bank AG, whose operations are not restricted by the Austrian Building Society Act, Wüstenrot Group aims to become a full-service financial institution in Austria, offering current accounts, savings, financing, insurance and pension products. Greater diversification and an improved market position would strengthen Wüstenrot's business model and be credit-positive.

Wüstenrot operates mainly in Austria. A strategic exit from the Eastern European market by sale or run-down of its subsidiaries is currently taking place.

The operating environment in Austria is highly supportive for banking activities, given the country's euro area membership, its wealthy, diversified and internationally competitive economy and its commitment to medium-term fiscal consolidation. Government has a favorable public debt profile and the private sector debt level is low.

The Austrian banking system is highly fragmented and overbanked, with the largest financial institutions having extensive operations in the CEE region. The Austrian banking sector remains strong, underpinned by robust capital and liquidity buffers. Strong profits contribute to the sector's increased resistance to heightened geopolitical and credit risks, particularly in the commercial property sector. Credit quality has started to deteriorate in late 2023, especially in the corporate loan portfolio. By contrast, the quality of loans to households remained stable. Compared to historical figures, however, an average NPL ratio is still moderate.

The regulatory environment is strong, with a well-established and proactive banking supervisor, a comprehensive resolution regime and a consistent track record of promoting financial stability. Wüstenrot is locally regulated and not directly supervised by the ECB due to its small size. As a building society Wüstenrot is also subject to specific Austrian building society regulation governing lending and deposit taking.

With an Austrian cooperative as the owner, Wüstenrot's environmental and social initiatives are well established, but do not distinguish it from the industry average. Digitalisation has been recognised by management as a driver for the sustainable business development. However, the potential is still underexplored also in comparison with the Austrian banking market. Governance risks are mitigated by independent and effective management and prudent capital allocation. The associated checks and balances are the central component of the governance structure.

Wüstenrot's moderate but stable profitability is based on very long-term relationships on both the loan and deposit side. Cost cutting measures are a key point to the management of the group. Given a building society business model, Wüstenrot's income streams are very consistent, with interest income and related fees as the main sources. In addition, they are well balanced with net interest income from its liquidity portfolio and dividends upstream mainly from its insurance subsidiary. However, Wüstenrot is more exposed to potential vulnerability in real estate markets in Austria than its more diversified peers. Low credit costs should be viewed in the context of a highly collateralised real estate loan portfolio. Wüstenrot's domestic loan portfolio is granular and well diversified across all Austrian regions. Asset quality is strong due to the focus on own-use residential mortgages.

With a CET1 ratio at 20.4% as of year-end 2023, Wüstenrot operates with substantial buffer above requirements. Strong capitalisation also alleviates potential non-credit risks stemming from its sizeable equity investment in its fully-owned insurance subsidiary. Capital adequacy has benefited

from profit retention as well as the downstream merger of BWA with Wüstenrot. The dependence on wholesale funding is low. The bank uses senior preferred and covered bond issuance to diversify its funding profile and to comply with MREL requirements.

Credit view change-drivers

Our credit view could be positively impacted by successful expansion of the business profile through the implementation of a new digital bank and insurance offerings in the core Austrian retail market as well as stable long-term profitability achieved by diversifying income streams.

Our credit view could be negatively impacted by an unexpected change in the bank's underwriting standards following its expansion into digital retail banking or significant deterioration in the economic environment, i.e. the real estate sector in Austria and particularly the mortgage market.

A significant deterioration in Wüstenrot's healthy capital adequacy ratios and/or its sound funding and liquidity profile could also lead to our negative credit view.

Selected financial information I – Bausparkasse Wüstenrot AG

	2019	2020	2021	2022	2023
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	311	295	213	234	227
Total securities	892	723	617	543	647
of which, derivatives	0	1	0	NA	73
Net loans to customers	4,846	4,911	4,983	5,458	5,484
Other assets	516	535	528	626	569
Total assets	6,566	6,464	6,341	6,860	6,927
Liabilities					
Interbank liabilities	34	72	193	232	234
Senior debt	271	326	967	1,518	1,895
Derivatives	61	93	51	107	89
Deposits from customers	5,434	5,212	4,330	4,206	3,934
Subordinated debt	100	100	100	100	0
Other liabilities	89	60	139	21	44
Total liabilities	5,990	5,864	5,780	6,184	6,197
Ordinary equity	576	600	561	676	730
Equity hybrids	0	0	0	0	0
Minority interests	0	0	0	0	0
Total liabilities and equity	6,566	6,464	6,341	6,860	6,927
<i>Core tier 1/ common equity tier 1 capital</i>	557	576	529	646	676
Income statement summary (EUR m)					
Net interest income	91	95	83	73	103
Net fee & commission income	8	7	10	21	17
Net trading income	NA	NA	NA	NA	NA
Other income	NA	NA	NA	NA	NA
Operating income	135	103	107	103	124
Operating expenses	108	65	69	56	55
Pre-provision income	27	38	38	47	69
Credit and other financial impairments	-9	11	8	-3	-1
Other impairments	14	2	2	7	8
Non-recurring income	NA	0	0	0	0
Non-recurring expense	NA	0	0	0	0
Pre-tax profit	22	25	28	43	62
Income from discontinued operations	0	0	0	0	0
Income tax expense	2	2	4	12	8
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	0	0	0	0	0
Net profit attributable to parent	19	24	24	31	54

Source: SNL, Scope Ratings

Note: Reclassified financial information could differ from "as reported financials"

Selected financial information II – Bausparkasse Wüstenrot AG

	2019	2020	2021	2022	2023
Funding and liquidity					
Net loans/ deposits (%)	89%	94%	115%	130%	139%
Liquidity coverage ratio (%)	397%	318%	340%	265%	292%
Net stable funding ratio (%)	138%	133%	133%	126%	130%
Asset mix, quality and growth					
Net loans/ assets (%)	73.8%	76.0%	78.6%	79.6%	79.2%
Problem loans/ gross customer loans (%)	1.2%	1.2%	NA	NA	NA
Loan loss reserves/ problem loans (%)	52.2%	58.3%	NA	NA	NA
Net loan growth (%)	0.7%	1.3%	1.4%	9.5%	0.5%
Problem loans/ tangible equity & reserves (%)	9.5%	9.3%	NA	NA	NA
Asset growth (%)	0.4%	-1.6%	-1.9%	8.2%	1.0%
Earnings and profitability					
Net interest margin (%)	1.5%	1.6%	1.4%	1.2%	1.6%
Net interest income/ average RWAs (%)	2.7%	2.8%	2.5%	2.2%	3.0%
Net interest income/ operating income (%)	67.6%	91.5%	78.1%	70.8%	82.6%
Net fees & commissions/ operating income (%)	6.1%	6.9%	9.8%	20.1%	13.9%
Cost/ income ratio (%)	79.9%	63.3%	64.8%	54.2%	44.5%
Operating expenses/ average RWAs (%)	3.2%	2.0%	2.1%	1.7%	1.6%
Pre-impairment operating profit/ average RWAs (%)	0.8%	1.1%	1.1%	1.4%	2.0%
Impairment on financial assets / pre-impairment income (%)	-32.3%	28.6%	20.2%	-6.3%	-1.3%
Loan loss provision/ average gross loans (%)	-0.2%	0.2%	NA	NA	NA
Pre-tax profit/ average RWAs (%)	0.6%	0.8%	0.8%	1.3%	1.8%
Return on average assets (%)	0.3%	0.4%	0.4%	0.5%	0.8%
Return on average RWAs (%)	0.6%	0.7%	0.7%	0.9%	1.6%
Return on average equity (%)	3.4%	4.0%	4.1%	5.0%	7.7%
Capital and risk protection					
Common equity tier 1 ratio (% fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (% transitional)	16.7%	17.1%	16.2%	18.7%	20.4%
Tier 1 capital ratio (% transitional)	16.7%	17.1%	16.2%	18.7%	20.4%
Total capital ratio (% transitional)	20.2%	20.3%	19.4%	21.5%	20.4%
Leverage ratio (%)	8.2%	8.6%	7.9%	8.7%	9.4%
Asset risk intensity (RWAs/ total assets, %)	50.7%	52.3%	51.5%	50.5%	48.0%

Source: SNL, Scope Ratings

Note: Reclassified financial information could differ from "as reported financials"

Lead Analyst

Covered bond

Mathias Pleißner, Frankfurt
+49 69 66 77 389-39
m.pleissner@scoperatings.com

Bank

Milya Safiullina, Frankfurt
+49 69 66 77 389-18
m.safiullina@scoperatings.com

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Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com



Bloomberg: RESP SCOP
[Scope contacts](#)
[scoperatings.com](https://www.scoperatings.com)

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