3 August 2020 Covered Bonds

Bausparkasse Wüstenrot AG
Austrian Mortgage-Covered Bonds – Performance Update

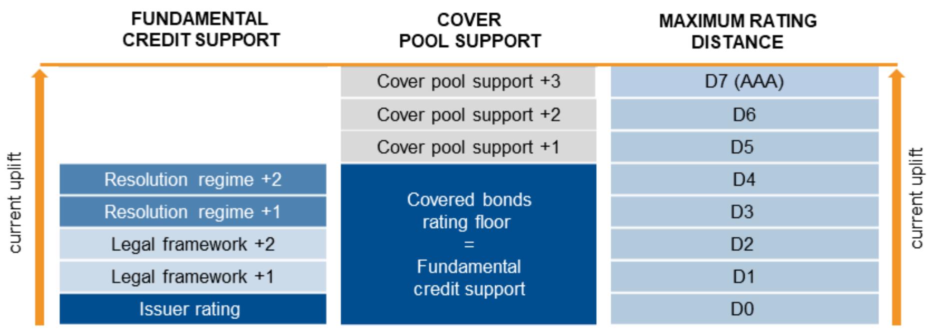
The AAA rating with a Stable Outlook assigned to the Austrian mortgage-covered bonds issued by Bausparkasse Wüstenrot AG (Wüstenrot) is based on sound issuer credit quality, enhanced by seven notches of cover pool support. Four notches thereof reflect our assessment of the strong fundamental credit support provided by the Austrian legal covered bond and resolution framework.

Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
31 March 2020	EUR 612.4m	Residential mortgage loans	EUR 274.0m	AAA/Stable

Wüstenrot is the oldest and the only remaining independent building society in Austria. Together with its insurance subsidiary, Wüstenrot Versicherungs-AG, Wüstenrot forms a nationwide bancassurance franchise that is supported by distribution agreements with leading commercial banks such as Bank Austria and BAWAG.

Fundamental credit support factors from the Austrian legal and resolution framework provide a four-notch uplift above the bank's rating, which effectively forms a rating floor. Cover pool support enables the programme to be rated AAA, with another three notches of uplift reflecting the credit strength of the covered bond programme.

The covered bonds have been assigned their maximum achievable rating. Therefore, an issuer downgrade or negative change in Outlook would result in commensurate changes in the covered bond ratings.



Stable Outlook

The Stable Outlook reflects: i) the continuous availability of high overcollateralisation (OC), which provides a significant buffer against a rise in credit and market risks, thereby maintaining the three notches of cover pool-based support; ii) our view that European covered bond harmonisation will not negatively impact the fundamental support factors relevant for the issuer and Austrian mortgage-covered bonds in general; and iii) our Stable Outlook on the issuer.

Changes since the last performance update

Minimum supporting OC decreased to 17% from 25% previously. This reflects a smaller stressed asset-liability maturity mismatch and a 20bps decrease in the weighted average interest rate paid on the covered bonds. While the decrease is small, it compounds over the long life of the covered bonds of around 17 years.

Despite the Covid-19 recession, credit risk contribution to the rating supporting OC remains small, reflecting the domestic, residential and low loan to value (LTV) cover pool. We will closely monitor loan impairments in the issuer's mortgage book and adjust our default projections if necessary.

Ratings & Outlook

Issuer rating	**N/D***
Outlook	N/D*
Last rating action	N/D*
Last rating action date	N/D*
Covered bond rating	**AAA**
Outlook	Stable
Rating action	Affirmed
Last rating action date	14.07.20

*N/D – Not disclosed; Scope has assigned a private, monitored issuer rating to the bank. The issuer has solicited the assigned rating and participated in the rating process.

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Related Research

Scope Ratings affirms at AAA/Stable the Austrian mortgage-covered bonds issued by Wüstenrot
July 2020

Covered Bond Framework Analysis Analytical Considerations: Austria
August 2016

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Bloomberg: SCOP

The issuer

Only independent Bausparkasse in Austria

We maintain and monitor a private rating on Wüstenrot, the only independent Bausparkasse (building society) in Austria.

As niche players, Austrian building societies have steadily been losing market share in recent years due to their limited product offering and an interest environment that has made their savings products less attractive to retail clients. Nevertheless, Wüstenrot has produced stable results thanks to its conservative risk strategy, cost management, and diversification into insurance.

Wüstenrot's independent structure results in a larger cost base and fewer opportunities for economies of scale than peers. Furthermore, Wüstenrot does not have access to a larger capital- and liquidity-supporting group structure. We nevertheless view positively the group's 'no dividend' policy, because it organically strengthens capital positions for all group entities. With regard to the bank's capital-raising abilities, potential support from its majority owner is limited.

The Covid-19 recession in Austria will lead to a decline in asset quality due to rising unemployment and extensive debt moratoria under statutory government schemes. Impairments are likely to be low on Wüstenrot's retail mortgage portfolio and should only emerge only over time. Nevertheless, we expect general provisioning needs to rise this year.

For further details on our bank credit analysis see Appendix I.

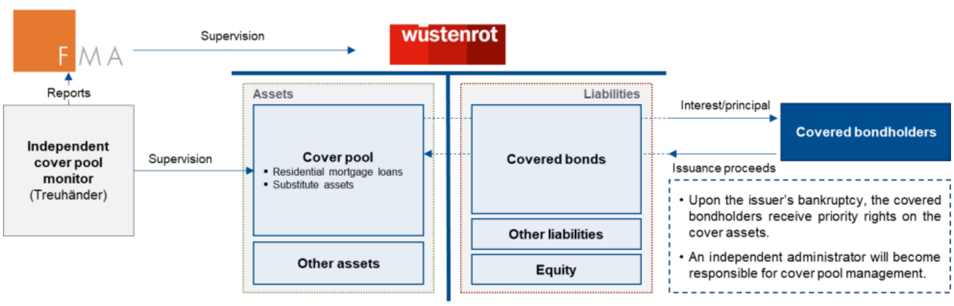
Programme structure

On-balance sheet framework

Wüstenrot is the regulated entity of a retail-focused financial conglomerate. As a building society focused on both the promotion of residential mortgage lending and regular savings, Wüstenrot is subject to a specialised building society act (Bausparkassengesetz), which significantly restricts business opportunities for building societies compared to universal banks. In late 2013, Wüstenrot received a licence to issue covered bonds, allowing the bank to widen refinancing opportunities.

Covered bond issuance is governed by the Austrian Covered Bond Act. Austria's Financial Market Authority currently limits covered bond issuances to 10% of the bank's balance sheet – a restriction common for Austrian building societies.

Figure 1: Issuance structure



Source: Scope Ratings.

Fundamental credit support analysis

The Austrian covered bond framework, particularly the Pfandbriefgesetz (Mortgage Bond Act) relevant for Wüstenrot's mortgage-covered bonds, combined with our positive view on the resolution regime, provides the covered bonds with a fundamental analysis-based credit differentiation of four notches above the issuer's rating.

Two notches of legal framework uplift …

Our analysis of the Pfandbriefgesetz confirms that the framework just meets the criteria to assign the maximum credit differentiation under our methodology. The provisions ensure that: the cover pool is segregated from the issuer's insolvency estate; bond payments continue after insolvency; and identified risks can be mitigated by OC, which generally remains available after insolvency. Austrian covered bonds also benefit from specific regulatory oversight. However, we recognise the framework's lack of clarity on liquidity or risk management for covered bonds.

We believe ongoing industry efforts will improve and consolidate the three existing frameworks, reinforced by the upcoming European covered bond directive, which we expect will reduce complexity and improve credit protection for covered bond investors.

… plus two notches of resolution regime uplift

Wüstenrot's covered bonds benefit from an additional two-notch uplift, which reflects the exclusion of covered bonds from bail-in, our view on the resolvability and likely maintenance of Wüstenrot in the hypothetical scenario of regulatory intervention in the bank, and the moderate importance of covered bonds in Austria. In our opinion, Wüstenrot is not a systemically important covered bond issuer and Austrian covered bond stakeholders are not sufficiently supportive or cohesive to justify an additional uplift.

For a more comprehensive assessment of the fundamental support factors relevant for Austrian covered bonds, see our related research.

Cover pool characteristics

Reporting date	March 2019	March 2020
Balance (EUR m)	413.1	612.4
Residential (%)	97.5%	98.0%
Substitute (%)	2.5%	2.0%

General information

Reporting date	March 2019	March 2020
No. of loans	4,090	5,808
Avg. size (EUR)	115.9	103.4
Top 10 (%)	1.1%	0.9%
Remaining life (y)	25.5	26.0
Seasoning (y)	2.9	3.2
WA whole-loan LTV	69.0%	70.0%
WA eligible-loan LTV	51.8%	53.1%

Property type (%)

Reporting date	March 2019	March 2020
Houses	63.7	63.0
Flats	31.4	32.7
Multi-family houses	2.1	1.8
Other	2.7	2.5

Repayment type (%)

Reporting date	March 2019	March 2020
Annuity	100	100
Interest-only	0.0	0.0

Interest rate type (%)

Reporting date	March 2019	March 2020
Floating	75.0	75.4
Fixed	25.0	24.6

Cover pool analysis

Wüstenrot's mortgage-covered bond ratings are cover pool supported, with seven out of seven possible notches currently needed to support the highest credit quality. Fundamental credit support provides for a four-notch rating uplift and, effectively, a floor against a deterioration in cover pool credit quality.

Since our last review in 2019, the minimum supporting OC needed to achieve the highest rating has decreased to 17.0% from 25.0%. This reflects a stable, high quality cover pool and reduced asset-liability mismatches.

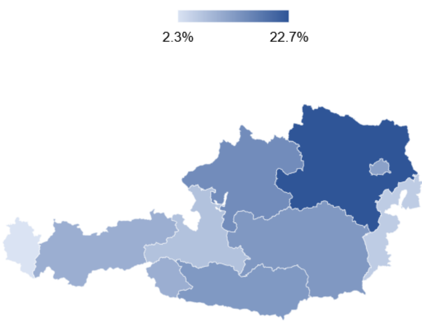
Cover pool composition

The credit quality of the cover pool is sound, with purely domestic and residential borrowers. The pool has no large concentrations and is very granular with an average loan size of around EUR 100,000.

The Austrian Mortgage Bond Act does not stipulate a maximum LTV for cover pool assets. However, Wüstenrot voluntarily limits its eligible LTV to 60%. The cover pool has a weighted average whole-loan LTV of 70.0% and a corresponding weighted average eligible-loan LTV of 53.1%. This indicates a high level of protection against credit losses in the event of borrower default.

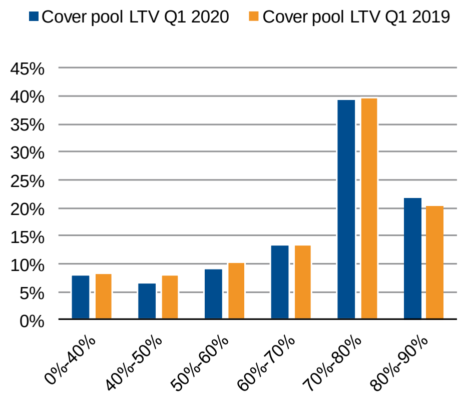
The weighted average seasoning of the pool has increased to 3.2 years from 2.9 years in Q1 2019. This mainly reflects the substantial cover pool top-up during the last year. The cover pool is well distributed across Austria and concentrations have not materially changed since our last review.

Figure 2: Regional distribution



Source: Scope Ratings, Wüstenrot.

Figure 3: Whole loan LTV distribution



Source: Scope Ratings, Wüstenrot.

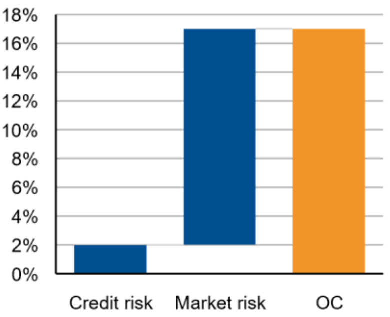
Asset risk analysis

High credit quality translates into minimal credit risk

Our projections of default in the cover pool use an inverse Gaussian distribution with a mean default rate of 10% and a coefficient of variation of 60%. The parameters for the default distribution were derived using the bank's loan-by-loan risk assessments.

We estimate a weighted average recovery rate of 100% under a base case scenario (D0) and 90% under the most stressful scenario (D7). Recovery rate calculations reflect rating-distance-dependent market value declines as well assumptions regarding the Austrian housing market and its unique characteristics. Stressed security value haircuts range between 40.0% and 65.0%, depending on the property's location.

Supporting OC breakdown



Source: Scope Ratings

Asset-liability mismatches

	Assets	Liabilities
EUR	100%	100%
Fixed	75.4%	100%
Floating	24.6%	0.0%
WAL (years)	14.4	17.4

Cash flow risk analysis

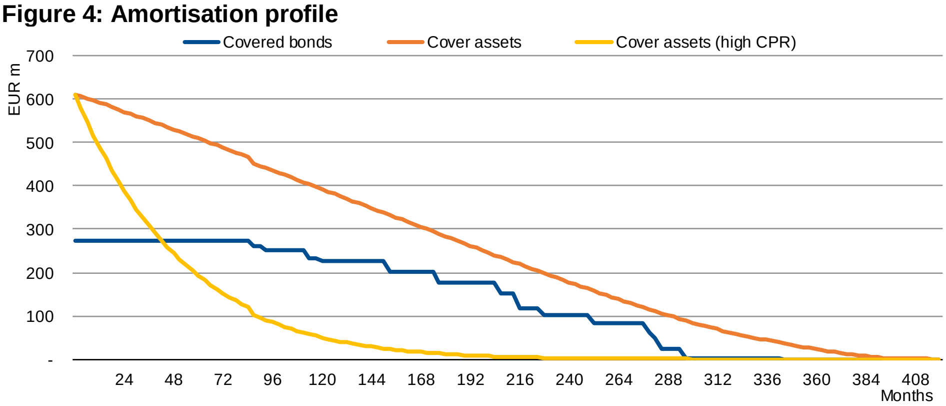
The rating-supporting OC of 17.0% mainly reflects the programme's sensitivity to high prepayments in combination with a stressed lower-for-longer interest rate scenario. Combined, these factors result in significant costs of carry for the programme. Market risks alone account for 15pp of the 17.0% supporting OC.

As of Q1 2020, the weighted average life (WAL) of the outstanding covered bonds decreased to 17.4 years from 18.8 years in our previous analysis. In comparison, the WAL of the scheduled cover pool remained at 14.4 years. Assuming a high prepayment scenario, the asset WAL significantly decreases to around five years, thereby further increasing the gap between the cover assets and the covered bonds.

Structural interest rate risk is moderate compared to other Austrian mortgage-covered bond programmes. 75% of the cover assets pay a fixed rate, while all covered bond rates are fixed. Most of the bank's mortgage loans have interest-reset dates with embedded interest rate caps and floors.

In total, credit risk accounts for 2pp of the supporting OC. This is relatively low, reflecting the mean default rate of 10%, a coefficient of variation of 60% and a stressed recovery rate of 90.0%. It also reflects the high prepayment scenario that drives the results, which reduces the lifetime of the assets and thereby the allocation of defaults.

Figure 4: Amortisation profile

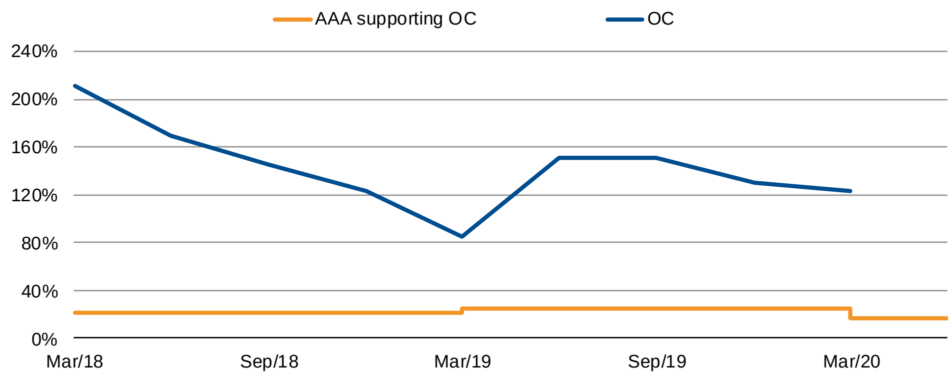


Source: Scope Ratings, Wüstenrot

Availability of overcollateralisation

Wüstenrot typically provides significantly higher levels of OC than the minimum stipulated by the legal framework (currently 2%). This demonstrates the issuer's willingness and ability to support the covered bond programme's strong credit quality. We are not aware of plans that would significantly change the risk profile or reduce available OC.

Figure 5: Available OC versus rating-supporting level



Source: Scope Ratings, Wüstenrot

Other risk considerations

Counterparty risk mitigated by alignment of interests

The rated bonds are exposed to Wüstenrot's roles as originator, servicer, account provider and paying agent. No documented replacement mechanisms would automatically shield the covered bonds from a credit deterioration of, for instance, 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. As part of the risk management process, the bank regularly monitors its accounts to ensure it can take remedial action at an early stage. 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.

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.

Sovereign risk does not currently affect the ratings

Sovereign risk does not limit the ratings of Wüstenrot's mortgage-covered bonds. We believe the risks of an institutional framework meltdown, legal insecurity or currency-convertibility problems are currently remote. At the same time, our view on Austria's macroeconomic fundamentals and potential risks due to Covid-19 are factored into the stresses that support the covered bond ratings.

No impact from ESG

We have not directly included ESG aspects in our rating of the covered bonds issued by Wüstenrot. The issuer has no specific ESG underwriting guidelines which provide for adjustments to the terms and conditions of a mortgage loans if minimum ESG conditions are met/not met. Similarly, information provided on the collateral does not allow us to determine energy efficiency or differences in recovery proceeds. We were therefore unable to differentiate between ESG-compliant and non ESG-compliant assets in our credit risk analysis.

Sensitivity analysis

No rating buffer to potential change in issuer rating

An issuer downgrade or negative change in the issuer's Outlook would result in commensurate changes for the covered bond ratings, while minimum supporting OC would remain stable at 17.0%. This reflects the maximum uplift available to the rated covered bonds.

Appendix I: Credit quality of the issuer

Highlights

- Wüstenrot is the oldest and the only remaining independent building society in Austria. Together with its insurance subsidiary, Wüstenrot Versicherungs-AG, Wüstenrot forms a nationwide bancassurance franchise that is supported by distribution agreements with leading commercial banks such as Bank Austria and BAWAG.
- As niche players, Austrian building societies have steadily been losing market share in recent years due to their limited product offering and an interest environment that has made their savings products less attractive to retail clients. Nevertheless, Wüstenrot has produced stable results thanks to its conservative risk strategy, cost management, and diversification into insurance.
- The Covid-19 recession in Austria will lead to a decline in asset quality due to rising unemployment and extensive debt moratoria under statutory government schemes. Although impairments are likely to be low on Wüstenrot's retail mortgage portfolio and should only emerge over time, we nevertheless expect general provisioning needs to rise this year.

Rating drivers (summary)

The rating drivers, in decreasing order of importance in the rating assignment, are:

- Well established brand as a specialised housing-finance lender and bancassurance provider in Austria
- Falling market share and stagnating business volume of Austrian building societies will require further adjustments to Wüstenrot's stand-alone strategy
- Prudent and conservative management of asset quality, capital and liquidity is rooted in the bank's independent position. The low-risk profile should provide resilience during periods of low profitability.

Rating-change drivers

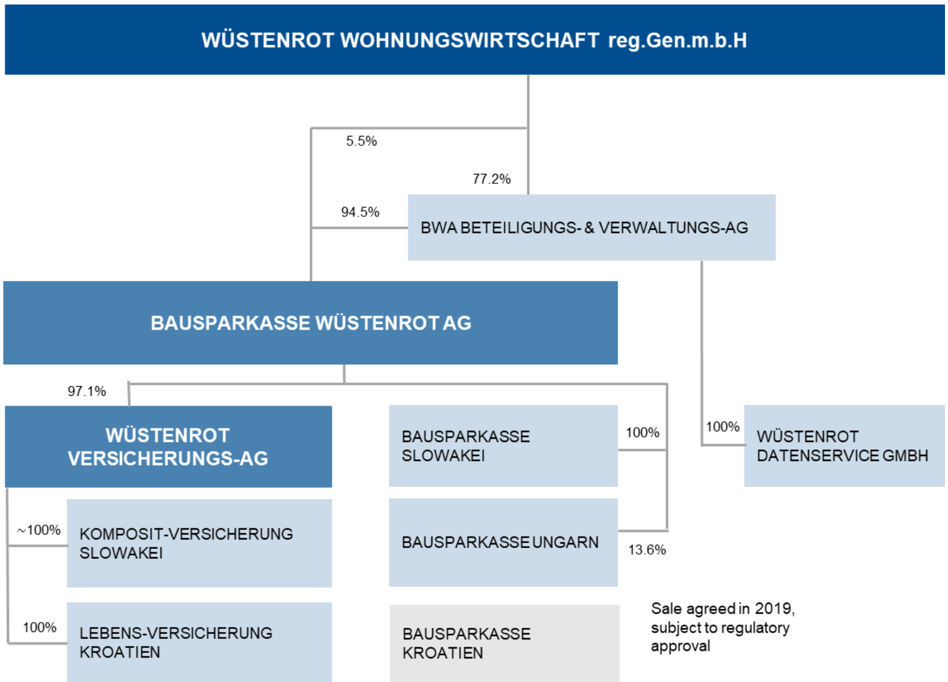
↑	Successful cost containment with sustained improvement in profitability and financial flexibility. Broadening franchise through insurance offerings in the core Austrian retail market.
↓	Changing risk profile and weaker credit due to decreasing market share and diminishing profitability
↓	Any risks arising from subsidiaries (insurance or foreign based)

Group structure

Wüstenrot Group is a co-operative financial services group headquartered in Salzburg. Its main asset is Bausparkasse Wüstenrot AG (Wüstenrot), which in turn owns Wüstenrot Versicherungs-AG and other building society interests in CEE countries (Figure 6).

The group offers residential home financing, financial precautionary savings, life and non-life insurance products (including health and mobility), as well as general insurance-based investment products. As of December 2019, Wüstenrot had 489 employees in Austria and the insurance company had a further 1,101 employees.

Figure 6: Wüstenrot group structure



Source: Company data, Scope Ratings

Mixed co-operative and private ownership

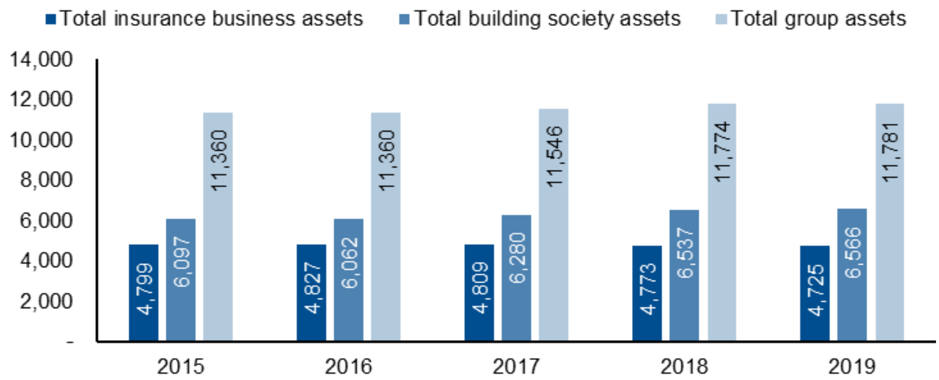
The bank's main shareholder, Wüstenrot Wohnungswirtschaft reg.Gen.m.b.H., is a cooperative institution owned by individual members, which was founded to promote affordable housing. Minority shareholders control 21.5% of the bank via BWA Beteiligungs- & Verwaltungs-AG. These are various banks, which are largely passive shareholders and either current or former distribution partners of Wüstenrot.

Table 1: Wüstenrot shareholder structure – BWA Beteiligungs- und Verwaltungs-AG

Shares in the BWA Beteiligungs- und Verwaltungs-AG as of 31.12.2019	in %
Wüstenrot Wohnungswirtschaft reg.Gen.m.b.H., Salzburg	77,21
UniCredit Bank Austria AG, Wien	12,63
BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse AG, Wien	3,88
Oberbank AG, Linz	2,6
Other shares	3,68
	100

Wüstenrot is the largest entity within the group with total assets of EUR 6.6bn on a stand-alone basis, which represent 47% of consolidated group assets if the insurance subsidiary is included (Figure 7).

Figure 7: Development of total assets: Wüstenrot Group (EUR m)



Source: Company data, Scope Ratings

Narrowly defined business model

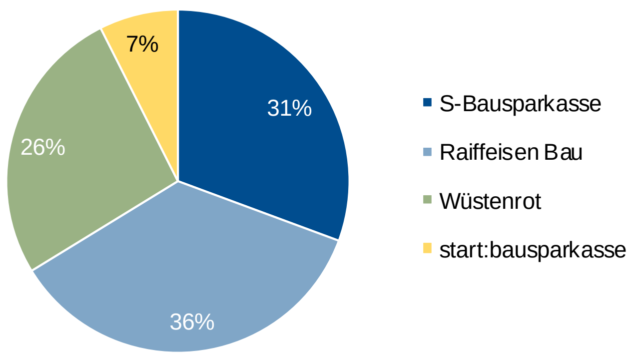
Wüstenrot is supervised nationally in Austria by the Financial Market Authority and the Austrian national bank. In addition, Austrian building societies are subject to a specialised building society law (Bausparkassengesetz), which defines their special purpose.

Building societies provide various types of savings contracts. These appeal to Austrian retail clients because they offer the benefit of additional incentive payments from the government. The proceeds are used to finance residential housing, but loans can also be partly used for education and the care of the elderly or other individuals. Building society loans based on a savings contract are restricted to EUR 220,000 per person, and the maximum LTV is 80%.

Wüstenrot uses various distribution channels, including customer centres across Austria, a network of financial advisors, mortgage brokers, and cooperation with various commercial banks. We particularly regard the network of financial sales consultants as a competitive advantage for Wüstenrot. It provides a close connection to the bank's clients on a relatively low cost base.

Despite falling rates and a declining market, many retail investors still consider building deposit contracts as a core investment, mainly due to the attached government subsidy. Hence, building societies continue to see tepid demand for their savings products, which function as their main and often exclusive source of funding. As Austria's third largest building society with a market share of 26% as of end-2019, Wüstenrot benefits from strong brand recognition as the oldest and only remaining independent building society in the country.

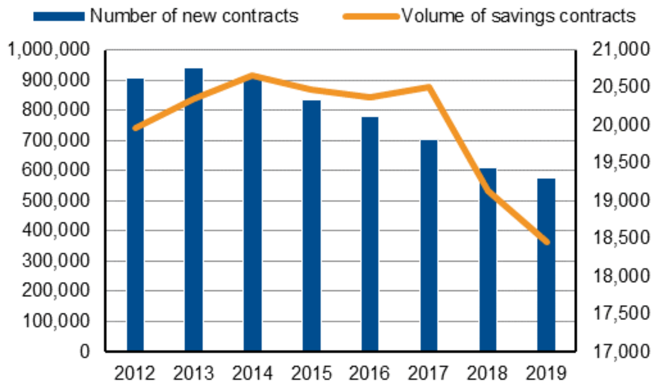
Figure 8: Bausparkassen market shares for loans (mortgage loans, bridge-financing and other loans) as of YE2019 (%)



Source: Company data, Scope Ratings

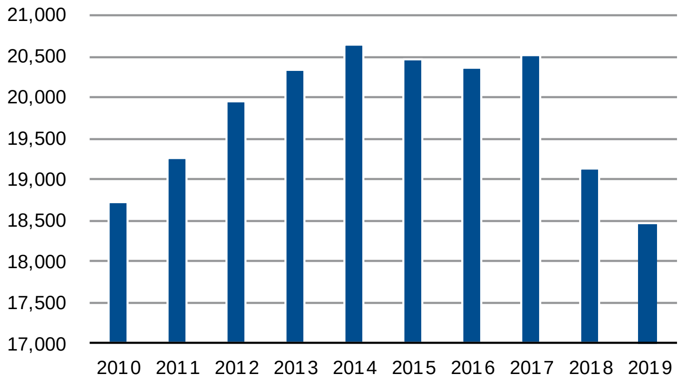
Since 2014, the building society sector has experienced steadily decreasing sales in a declining overall market for building deposits in terms of both contract numbers and volume of savings.

Figure 9: Number of new savings contracts with building societies (units) versus volume of outstanding savings contracts (EUR m)



Source: Company Data, Arbeitsforum der Österreichischen Bausparkassen (AÖB)

Figure 10: Number of new savings contracts with Wüstenrot (units)



Source: Company data, Scope Ratings

Falling market share and stagnating business will require adjustments to strategy

Despite government subsidies, building society contracts have become less attractive than alternatives in the form of plain low-rate mortgage loans (in the past often in CHF rather than EUR) offered by traditional banks. Savings contracts are often no longer converted into loans. The number of regular savers has declined in favour of larger lump-sum deposits that are regarded as long term.

Changed client preferences may lead to asset and liability mismatches for the building society sector, requiring an appropriate asset liability management strategy, e.g. using derivatives and covered bonds. However, unlike in the German market, Austrian building deposits do not commit the bank to a fixed interest rate for a potential future mortgage loan, which significantly reduces the interest rate risk if savers do not convert their deposits into a mortgage loan.

Wüstenrot is not a full-service bank and, unlike its peers that are affiliated with commercial banks, does not have access to a retail branch network. However, based on its distribution agreements with other banking groups, like BAWAG and Bank Austria, as well as its own sales force, Wüstenrot should have extensive bank client reach across Austria.

The Covid-19 induced economic crisis has further reinforced management's view that digitisation needs to be expanded.

CEE subsidiaries under review

Wüstenrot has well-established networks in several CEE countries. The bank fully owns Wüstenrot stavebna sportel'na a.s. in Slovakia and has a minority share (13.6%) of Hungarian Fundamenta Lakaskassza AG. Wüstenrot received a binding offer for its Croatian business in 2019 but the completion of the deal is still subject to regulatory approvals.

Prudent and conservative management of capital and liquidity is rooted in the bank's independent position

Wüstenrot's stand-alone common tier 1 equity (CET1) ratio was 16.7% as of year-end 2019 (2018: 14.8%) with a total capital ratio of 20.2% (18.4%) at the parent company. The leverage ratio was 8.2%. The liquidity coverage ratio was 396% at end-2019 due to the long-dated nature of the deposit base.

Capital generation at the parent company benefits from retained earnings as well as the upstreaming of dividends from its insurance subsidiaries, which were suspended for 2019 due to the uncertainty related to Covid-19.

The funding of Wüstenrot depends mainly on retail deposits, with the majority linked to savings contracts. This provides the bank with a stable deposit base because any premature cancelation of a building deposit contracts incurs penalty fees.

The loan to deposit ratio has been increasing steadily in recent years, reaching 89% at the end of 2019 because loans outpaced deposit growth due to the limited demand for savings products in a low-rate environment. In response, the bank started to reinvest its excess liquidity in its core lending activity. At end-2019, the bank owned EUR 578m in bonds, of which EUR 198m were central bank eligible (in addition to other ECB collateral). Bond holdings declined by EUR 110m in 2019 because the bank reinvested excess liquidity in its business, a trend that is expected to continue in 2020. Wüstenrot also issues a small amount of covered bonds within the 10% maximum limit set by the regulator, mainly as a hedge to its long-dated mortgages.

We consider Wüstenrot’s credit risk to be low due to its focus on residential mortgage lending.

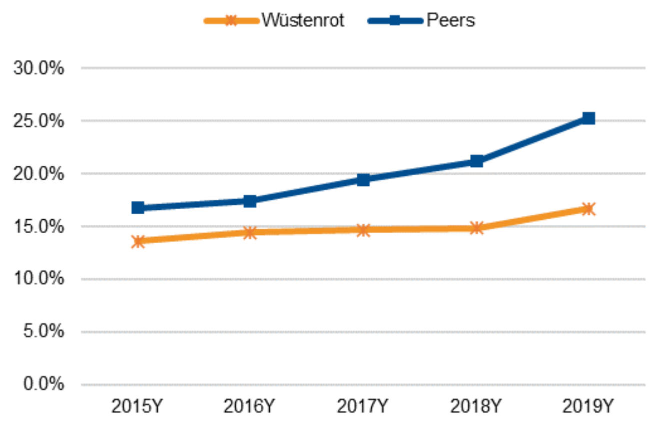
Low-risk profile provides resilience during economic crisis

Wüstenrot’s loan portfolio (around EUR 4.8bn as of year-end 2019) is composed of residential mortgages in Austria. The majority of loans are based on savings contracts (Bauspardarlehen) and are for owner-occupied properties. Such mortgage loans typically carry an initial LTV of between 60% and 80% and an effective maturity profile of 10-20 years. 94% of the portfolio is secured. The bank has no exposure to corporates or SMEs except for some loans to housing developers. While tourism exposure is a concern for Austrian lenders, Wüstenrot’s national portfolio is well diversified across all Austrian regions. Rising unemployment nevertheless remains a threat to asset quality.

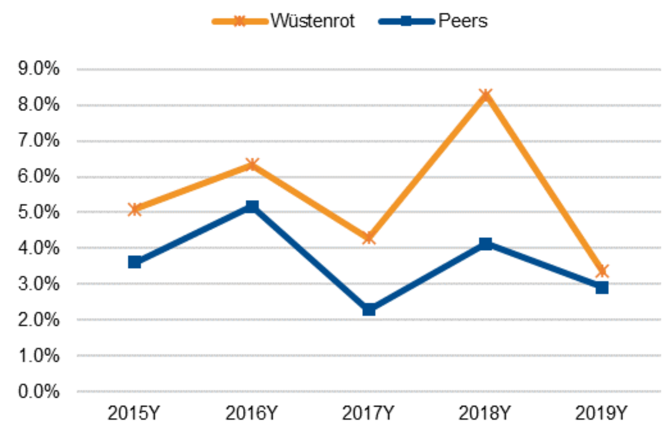
After a period of consistently low non-performing loans, the Covid-19 recession has led to a considerable accumulation of payment deferrals in Wüstenrot’s portfolio. The deferrals are between 3-6 months and are covered by the statutory regime that ends in October 2020. Statutory moratoria are not considered as forbearance, but we expect that deferrals will eventually lead to higher impairments. While Wüstenrot does not apply IFRS, we nevertheless expect general provisioning requirements to rise in 2020 and 2021 to cover future impairments. During the last crisis, the non-performing loan ratio reached 1.69% in 2009, which is still low compared to commercial bank peers.

Peer comparison

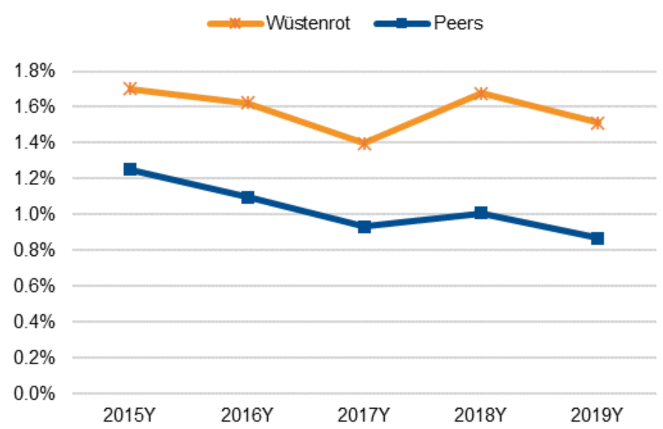
CET1 ratio (%, transitional)



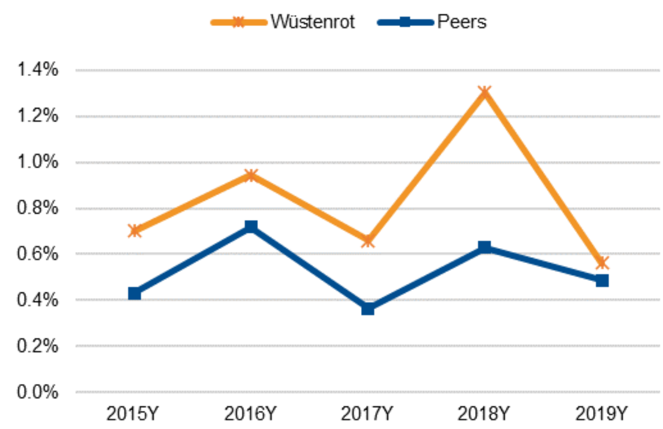
Return on average equity (%)



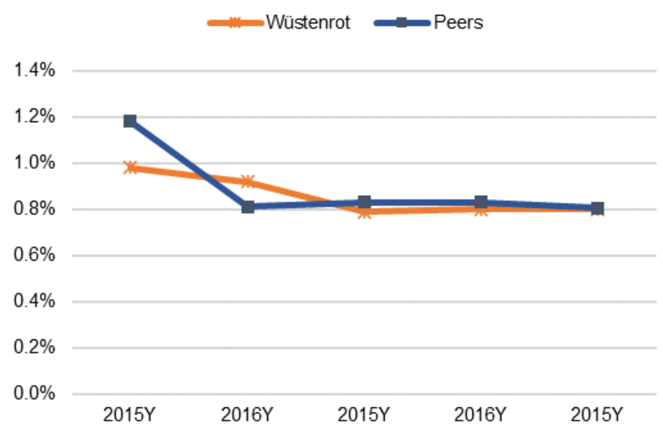
Net interest margin (%)



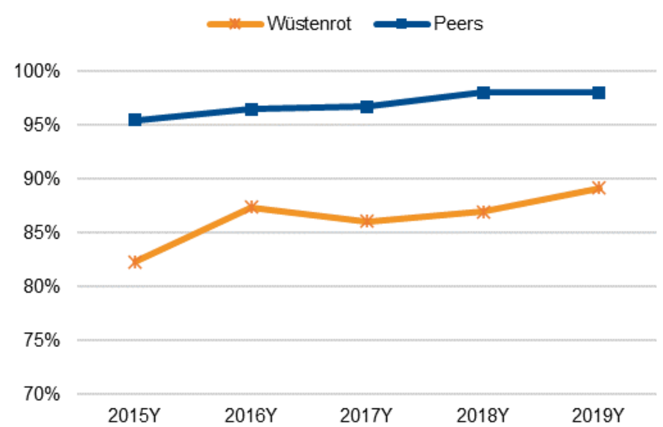
Return on risk-weighted assets (%)



Problem loans/gross customer loans (%)



Loan-to-deposits ratio (%)



*Peers: Bausparkasse Wüstenrot, Alte Leipzeiger Bausparkasse, Debeka Bausparkasse AG, BHW Bausparkasse, Raiffeisen Bausparkasse
Source: SNL

Selected financial information – Bausparkasse Wüstenrot AG (1/2)

	2015Y	2016Y	2017Y	2018Y	2019Y
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	224	151	187	196	311
Total securities	1,117	931	940	995	892
of which, derivatives	5	6	7	2	-
Net loans to customers	4,270	4,490	4,638	4,811	4,846
Other assets	485	490	515	534	516
Total assets	**6,097**	**6,062**	**6,280**	**6,537**	**6,566**
Liabilities					
Interbank liabilities	115	144	47	38	34
Senior debt	95	48	115	190	271
Derivatives	NA	NA	10	15	61
Deposits from customers	5,188	5,138	5,390	5,531	5,434
Subordinated debt	135	135	100	100	100
Other liabilities	NA	NA	105	105	89
Total liabilities	**5,636**	**5,571**	**5,767**	**5,980**	**5,990**
Ordinary equity	461	491	513	557	576
Equity hybrids	-	-	-	-	-
Minority interests	-	-	-	-	-
Total liabilities and equity	**6,097**	**6,062**	**6,280**	**6,537**	**6,566**
Core tier 1/ common equity tier 1 capital	437	461	491	514	557
Income statement summary (EUR m)					
Net interest income	95	91	79	99	91
Net fee & commission income	15	13	10	9	8
Net trading income	NA	NA	NA	NA	NA
Other income	NA	NA	NA	NA	NA
Operating income	**143**	**140**	**133**	**145**	**135**
Operating expenses	122	119	108	105	108
Pre-provision income	**22**	**21**	**25**	**40**	**27**
Credit and other financial impairments	(4)	(7)	2	9	(9)
Other impairments	2	11	(1)	(5)	14
Non-recurring income	NA	NA	NA	NA	NA
Non-recurring expense	NA	NA	NA	NA	NA
Pre-tax profit	**23**	**17**	**24**	**36**	**22**
Income from discontinued operations	-	-	-	-	-
Income tax expense	(0)	(14)	2	(8)	2
Other after-tax Items	-	-	-	-	-
Net profit attributable to minority interests	-	-	-	-	-
Net profit attributable to parent	23	30	22	44	19

Source: SNL, Scope Ratings

Selected financial information – Bausparkasse Wüstenrot AG (2/2)

	2015Y	2016Y	2017Y	2018Y	2019Y
Funding and liquidity					
Net loans/ deposits (%)	82.3%	87.4%	86.0%	87.0%	89.2%
Liquidity coverage ratio (%)	280.0%	222.8%	381.4%	476.9%	396.5%
Net stable funding ratio (%)	NA	132.4%	142.1%	142.3%	138.3%
Asset mix, quality and growth					
Net loans/ assets (%)	70.0%	74.1%	73.8%	73.6%	73.8%
Problem loans/ gross customer loans (%)	1.4%	1.3%	1.1%	1.2%	1.2%
Loan loss reserves/ problem loans (%)	39.3%	40.7%	48.8%	50.7%	52.2%
Net loan growth (%)	2.5%	5.2%	3.3%	3.7%	0.7%
Problem loans/ tangible equity & reserves (%)	12.4%	11.5%	9.3%	9.8%	9.5%
Asset growth (%)	-0.4%	-0.6%	3.6%	4.1%	0.4%
Earnings and profitability					
Net interest margin (%)	1.7%	1.6%	1.4%	1.7%	1.5%
Net interest income/ average RWAs (%)	2.9%	2.8%	2.4%	2.9%	2.7%
Net interest income/ operating income (%)	66.5%	65.0%	59.5%	67.8%	67.6%
Net fees & commissions/ operating income (%)	10.2%	9.1%	7.8%	5.8%	6.1%
Cost/ income ratio (%)	85.0%	85.1%	80.9%	72.4%	79.9%
Operating expenses/ average RWAs (%)	3.7%	3.7%	3.3%	3.1%	3.2%
Pre-impairment operating profit/ average RWAs (%)	0.7%	0.6%	0.8%	1.2%	0.8%
Impairment on financial assets / pre-impairment income (%)	-17.8%	-32.3%	8.6%	22.0%	-32.3%
Loan loss provision/ average gross loans (%)	-0.1%	-0.2%	0.0%	0.2%	-0.2%
Pre-tax profit/ average RWAs (%)	0.7%	0.5%	0.7%	1.1%	0.6%
Return on average assets (%)	0.4%	0.5%	0.3%	0.7%	0.3%
Return on average RWAs (%)	0.7%	0.9%	0.7%	1.3%	0.6%
Return on average equity (%)	5.1%	6.3%	4.3%	8.3%	3.4%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	13.6%	14.5%	14.7%	14.8%	16.7%
Tier 1 capital ratio (%, transitional)	13.6%	14.5%	14.7%	14.8%	16.7%
Total capital ratio (%, transitional)	19.0%	19.3%	18.6%	18.4%	20.2%
Leverage ratio (%)	NA	6.9%	7.1%	7.4%	8.2%
Asset risk intensity (RWAs/ total assets, %)	52.6%	52.5%	53.2%	52.9%	50.7%
Market indicators					
Price/ book (x)	NA	NA	NA	NA	NA
Price/ tangible book (x)	NA	NA	NA	NA	NA
Dividend payout ratio (%)	NA	NA	NA	NA	NA

Source: SNL, Scope Ratings

Appendix II: Summary of covered bond characteristics

Reporting date	31 March 2019	31 March 2020
Issuer name	Bausparkasse Wüstenrot AG	
Country	Austria	
Covered bond name	Hypothekenpfandbrief (Hypf) Austrian mortgage covered bonds issued under the PfandG	
Covered bond legal framework	Austrian legal covered bond framework	
Cover pool type	Residential mortgages	
Composition	Residential = 97.5% Substitute assets = 2.5%	Residential = 98.0% Substitute assets = 2.0%
Issuer rating	N/D	N/D
Current covered bond rating	AAA/Stable	AAA/Stable
Covered bond maturity type	Hard bullets	Hard bullets
Cover pool currencies	EUR (100%)	EUR (100%)
Covered bond currencies	EUR (100%)	EUR (100%)
Fundamental cover pool support	4	4
Maximum achievable covered bond uplift	7	7
Potential covered bond rating buffer	0	0
Cover pool / Eligible assets (EUR m)	473.9 /413.1	726.6/612.4
thereof, substitute assets and deposits (EUR bn)	12.2	12.2
Covered bonds (EUR m)	224.0	274.0
Overcollateralisation: current / legal minimum	117.0% / 2.0%	123.5% / 2.0%
Overcollateralisation to support current rating	25.0%	17.0%
Overcollateralisation upon a one-notch issuer downgrade	N/A	N/A
Weighted average life of assets	14.3	14.5
Weighted average life of liabilities	18.8	17.4
Weighted average life gap	-4.5	-2.9
Number of loans	4,090	5,808
Average loan size (EUR)	115.9	103.4
Top 10 exposures	1.1%	0.9%
Interest rate type – assets (fixed / floating)	75.0% 25.0%	75.4% 24.6%
Interest rate type – liabilities (fixed / floating)	100% 0.0%	100% 0.0%
Weighted average whole-loan LTV (unindexed)	69.0%	70.0%
Weighted average eligible-loan LTV (unindexed)	51.8%	53.1%
Geographic split (top 3)	Lower Austria (23.1%) Upper Austria (13.8%) Styria (13.7%)	Lower Austria (22.7%) Upper Austria (14.8%) Styria (13.1%)
Default measure	Inverse Gaussian	Inverse Gaussian
Mean default rate	10.0%	10.0%
Coefficient of variation	60.0%	60.0%
Recovery assumption (D0 / D7)	91.3% / 79.4%	100% / 90.0%
Interest rate stresses (max./min.; currency-dependent)	-1 to 10%	-1 to 10%
FX stresses (max./min.; currency-dependent)	NA	NA
Max liquidity premium	150bps	150bps
Servicing fee	25bps	25bps

D0 and D7 denote the stresses commensurate with the rating distance from the minimum and maximum achievable covered bond uplift

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