



Rating Action: Moody's upgrades Hypo Tirol Bank AG - Public-Sector Covered Bonds

14 Sep 2023

Frankfurt am Main, September 14, 2023 – Moody's Investors Service ("Moody's") has today upgraded the ratings of Hypo Tirol Bank AG's ("the issuer", Counterparty Risk Assessment (CR) A3(cr)) Public-Sector Covered Bonds to Aaa from Aa1.

RATINGS RATIONALE

We have upgraded the ratings of the public-sector covered bonds issued by Hypo Tirol Bank AG. The upgrade was prompted by additional information about the future level of over-collateralisation, particularly the issuer's willingness to maintain a level of OC consistent with a Aaa rating.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (such cessation, a CB anchor event); and (2) the estimated losses that will accrue to covered bondholders should a CB anchor event occur. We express the probability of a CB anchor event as a point on our alpha-numeric rating scale (i.e. the CB anchor), which is typically one notch higher than the issuer's CR assessment.

The CB anchor for this programme is A2.

The cover pool losses for this programme are 17.3%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 8.1% and collateral risk of 9.2%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 16.8%.

As of 30 June 2023, the over-collateralisation in the cover pool is 3423.5%, of which the issuer provides 2.0 % on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aaa rating is 15.0%. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Covered Bonds Sector Update", published quarterly.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which is our assessment of the likelihood of timely payment of interest and principal to covered bondholders following a CB anchor event. TPIs are assessed as Very High, High, Probable-High, Probable, Improbable or Very Improbable. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

For Hypo Tirol Bank AG - Public-Sector Covered Bonds, Moody's has assigned a TPI of High.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in November 2022 and available at <https://ratings.moodys.com/rmc-documents/396015>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPI of "High", the TPI Leeway for this programme is 2 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 3 notches all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB anchor and the TPI; (2) a multiple-notch downgrade of the CB anchor; or (3) a material reduction of the value of the cover pool.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

Moody's did not use any stress scenario simulations in its analysis.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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