Creditreform Covered Bonds Rating

Raiffeisen-Landesbank Steiermark AG
Mortgage Covered Bond Program

Creditreform Rating

Rating Object	Rating Information
Raiffeisen-Landesbank Steiermark AG, Mortgage Covered Bond Program	Rating / Outlook : **AA+ / Stable**
Type of Issuance : Mortgage Covered Bond under Austrian law Issuer : Raiffeisen-Landesbank Steiermark AG	Type: Initial Rating (unsolicited)
LT Issuer Rating : A- (Raiffeisen-Landesbank Steiermark AG) ST Issuer Rating : L2 Outlook Issuer : Stable	Rating Date : 02.03.2021 Rating Renewal until : Withdrawal of the rating Maximum Validity : 01.01.2050 Rating Methodology : CRA „Covered Bond Ratings"

Program Overview

Nominal value	EUR 2,866.00 m.	WAL maturity covered bonds	6.89 Years
Cover pool value	EUR 4,303.00 m.	WAL maturity cover pool	16.82 Years
Cover pool asset class	Mortgages	Overcollateralization (nominal/committed)	50.14%/ 2.00%
Repayment method	Hard Bullet	Min. overcollateralization	2.00%
Legal framework	Covered Bond Act	Covered bonds coupon type	Fix (56.04%), Floating (43.96%)

Cut-off date Cover Pool information: 30.09.2020

Content

Analysts

Philip Michaelis
Lead Analyst
p.michaelis@creditreform-rating.de
+49 2131 109 2157

AFM Kamruzzaman
Analyst
a.kamruzzaman@creditreform-rating.de
+49 2131 109 1948

Neuss, Germany

Rating Action

This rating report covers our analysis of the mortgages covered bond program ("Fundierte Bankschuldverschreibungen") issued under Austrian law by Raiffeisen-Landesbank Steiermark AG („RLB Steiermark"). The total covered bond issuance at the cut-off date (30.09.2020) had a nominal value of EUR 2,866 m, backed by a cover pool with a current value of EUR 4,303 m. This corresponds to a nominal overcollateralization of 50.14%. The cover assets mainly include Austrian mortgages obligations in Austria.

Taking into consideration the issuer rating, our analysis of the regulatory framework, liquidity- and refinancing risks, as well as our cover pool assessment and results of the cash flow analysis, Creditreform Rating AG ("Creditreform Rating" or "CRA") assigns the covered bond program with an AA+ rating. The AA+ rating represents a very high level of credit quality and very low investment risk.

Key Rating Findings

+	Covered bondholders have full recourse to the issuer
+	Current high overcollateralization (OC) over the minimum legal requirement
+/-	Ongoing Covid-19 can lead a sustained impact on the cover pool and issuer rating
-	High maturity mismatches between covered bonds and cover assets
-	Due to the Corona pandemic, the high level of risk provisioning significantly burdened the issuer's half-year result for 2020

Table1: Overview results

Risk Factor	Result
Issuer rating	A- (rating as of 01.03.2021)
+ Legal and regulatory framework	+3 Notches
+ Liquidity and refinancing risk	-/+0 Notch
= Rating after 1st uplift	AA-
Cover pool & cash flow analysis	AA+
+ 2nd rating uplift	+2 Notches
= Rating covered bond program	**AA+**

Issuer Risk

Issuer

RLB Steiermark is an Austrian regional bank headquartered in Graz. It is the largest bank in the Raiffeisen Banking Group Styria. On 07.04.1927, the predecessor of RLB Steiermark the "Landesverband der steirischen Raiffeisenkassen und landwirtschaftlichen Genossenschaften – Steirischer Raiffeisenverband" was founded and was to act as the national bank of the Styrian peasantry. In 2005, the RLB Steiermark changed from a cooperative to a stock company.

51 of the 53 Styrian Raiffeisen banks hold a direct stake in the RLB Steiermark with a share of 13.13%. In addition, RLB-Stmk Holding eGen holds 84.08% of the shares. RLB-Stmk Holding eGen holds 95.18% of the shares in RLB-Stmk Verbund eGen, which (as at 31 December 2019) is wholly owned by the 53 Styrian Raiffeisen banks. RLB Steiermark holds a direct interest of 9.95% in Raiffeisen Bank International AG ("RBI"). Furthermore, RLB Steiermark is 100% owner of Landes-Hypothekenbank Steiermark AG ("LHS"). In 2021, LHS is to be merged into the RLB Steiermark.

On 01.03.2021, CRA has assigned a long-term rating of RLB Steiermark (Group) at A-. Main driver of this rating decision were, on the one hand, a good capital base, a low depreciation ratio compared to the peer group and a solid structure of the Raiffeisen Banking Group in Austria. On the other hand, there is risk potential due to the considerable deterioration of the cost/income ratios within one year and the high dependence on the economic development of Austria and the real estate sector in Styria. In addition, due to the Corona pandemic, the high risk provisioning significantly burdened the half-year result for 2020.

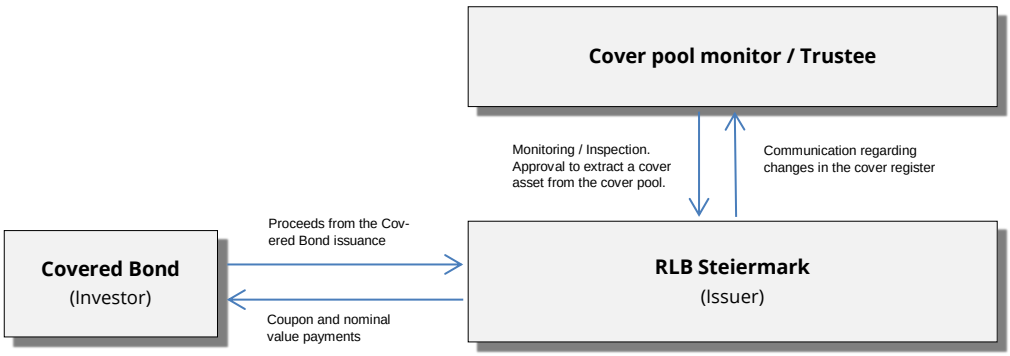
Structural Risk

Transaction structure

Table 2: Overview of all transaction's parties | Source: CRA

Role	Name
Issuer	Raiffeisen-Landesbank Steiermark AG
Cover pool administrator/ Trustee	Appointed by the Federal Minister for Finance
Insolvency administrator	Appointed by the bankruptcy court in case of issuer insolvency

Figure1: Overview of Covered Bond emission | Source: CRA



Legal and Regulatory Framework

The legal basis for covered bond issuances in Austria is provided by Pfandbrief Law (Pfandbriefgesetz, „PfandBG"), the Mortgage Banking Act (Hypothekenbankgesetz, „HypoBG") and the Covered Bond Act (Gesetz über Fundierte Bankschuldverschreibungen, „CBA").[1] While issuers must fulfil special requirements for issues under the PfandBG and HypoBG, covered bonds may be issued by any licensed lending institution in accordance with the CBA framework. The three national regulatory frameworks do not require program approval by the FMA, nor do they define specific obligations and powers with regard to ongoing oversight or in the event of a default by the issuer. As a result, they do not meet the recommendations of the European Banking Authority („EBA Best Practices")[2] and are considered to be only partially aligned.

All three frameworks meet the criteria of Article 129 of the EU Capital Requirements Directive (CRD IV package) and the criteria of Article 52 (4) of the UCITS Directive. Thus, banks can use low risk weights and the requirements for repo transactions with the national central bank are met.

With regard to the implementation of the EU BRRD Directive which provides resolution authorities with various resolution tools, Austria has transposed the Directive into national law by adopting the Law on the Recovery and Resolution of Banks (Gesetz über die Sanierung und Abwicklung von Banken, "BaSaG") in January 2015. This framework guarantees that covered bonds will not be used as bail-in capital in the event of an issuer's insolvency. Not only did Austria transpose this directive very early, but it is also one of the few countries that has already applied the law in practice. While the bail-in instrument was applied to senior unsecured liabilities of the former Hypo Alpe Adria Bank AG, issued covered bonds were excluded from bail-in under a moratorium bank institution (Heta Asset Resolution AG).

However, the European Commission on November 2019 has adopted a legislative package to provide for enhanced harmonisation of the EU covered bond market. Each of the Member States shall implement the Covered Bond Directive by 8 July 2021 and the national measures shall be applied at the latest from 8 July 2022. Once fully implemented, the directive might have

[1] Act of 21 December 1927 on covered bonds and related bonds of public credit institutions (Pfandbriefgesetz - PfandBG) and (2) Mortgage Banking Act of 13 July 1899 - HypBG, both last amended by Federal Law Gazette 107/2017, as well as (3) Act of 27 December 1905, concerning funded bank bonds, last amended by Federal Law Gazette 29/2010.

[2] See „EBA Report on Covered Bonds. Recommendations on Harmonisation of Covered Bond Frameworks in the EU", p. 26-82., European Banking Authority.

a potential impact on legal and regulatory framework on the issuer and the covered bonds of each EU member states.

Bankruptcy Remoteness and Asset Segregation

Cover assets remain on the consolidated balance sheet of the issuer and are not transferred to an independent legal representative ("in-balance" transaction). They must be registered with and entered into the cover register. In the event of an issuer default, the cover assets and any existing overcollateralization combined will be identified and separated from the remaining assets of the issuer. This segregation of cover assets fully complies with EBA Best Practices for structuring and harmonizing national covered bond legislation.

In the event of a default of the issuer, the registered cover assets are marked as non-insolvent part of the issuer estate and isolated from the bankruptcy estate; they form the insolvency-remote assets of the issuer and will not be affected by insolvency proceedings. If the cover pool is insufficient to fully service the claims of the covered bond creditors, the bond holders have recourse to the bank's aggregate bankruptcy estate in a *pari passu* relationship with other unsecured bond creditors. If the cover assets are not required in full to meet interest and principal payments, they are transferred to the issuer's bankruptcy estate.

There is no automatic sale or acceleration of repayment in the event of default. Austria continues to maintain the issuance of hard bullet covered bonds which only accelerate if the cover assets are insufficient to meet the requirements of and obligations towards covered bond holders. Nevertheless, Austrian Anadi Bank has also established a conditional pass-through structure, which is used for repo transactions. With regard to insolvency, Austrian legislation fully complies with EBA Best Practice and provides structural features that ensure a separation of covered bond assets from the issuer's insolvency and a preferential treatment of covered bond holders in terms of cover assets.

Trustee

The assets in the cover pool are monitored by a trustee or, in the case of the CBA, the so-called "Regierungskomissär". The trustee is appointed by the Minister of Finance and must ensure that the cover assets are available at all times and that they are duly recorded in the cover register. The trustee is liable under the Austrian Civil Code and must consent to the deletion of assets from the cover pool. In the event of a dispute between the trustee and the issuer, the FMA must intervene in a conflict-resolving manner. In addition, if the rights of a covered bond holder are infringed, a so-called "Kurator", who is a joint special representative, must be appointed by the court.

Special Administrator

If an issuer defaults, the cover assets are managed by a special administrator selected by the bankruptcy court and the FMA authority. The special administrator can sell assets or take out loans to increase liquidity and manages the covered bond program. The administrator is required to find a credit institution to which the covered bonds can be transferred together with their cover assets. If such disposition does not occur, the administrator must ensure the management of the assets in the cover pool and the servicing of the outstanding covered bonds until the final payment. In addition, the trustee must dispose of the cover assets in accordance with the contractual maturities and may influence the level of overcollateralization which enters into the general insolvency estate of the issuer once not required.

Eligibility Criteria

Eligible cover assets are mainly loans secured by senior mortgages ("Hypothekenpfandbriefe") and public sector debt ("Öffentliche Pfandbriefe"). According to the HypoBG and the PfandBG, the separation between mortgage and public covered bonds is obligatory. On the other hand, according to the CBA framework, a mixture of public loans, mortgages and certain local bonds or Austrian covered bonds which are regarded as safe ("mündelssicher") securities can take place in a single cover pool. Although there are no regulatory restrictions on the formation of the cover pool, issuers may establish separate reserve funds for public sector covered bonds and for other covered bonds. Typically, issuers provide discrete cover pools of mortgage and public assets, each covering a single class of covered bonds.

The geographical scope of eligible mortgage loans and public assets is limited to the EU / EEA countries and Switzerland, while assets from the US, Canada and Japan are not permitted. However, within these countries, if there is no provision for priority treatment of covered bond holders in the event of issuer default, the cover pool limit is 10%.

Under the regulatory frameworks, derivatives are only permitted if they are used to hedge risks. The amount of derivatives in the cover pool is not limited. The early termination of derivative contracts in the cover pool in the event of a bankruptcy of the issuer is not permitted under supervisory law, which corresponds to the proposals of the EBA Best Practices.

Substitute assets such as cash, bank balances and bonds issued by public issuers from EEA countries and Switzerland may be included in the cover pool but may not exceed the limit of 15% of the outstanding covered bonds. Asset Backed Securities and Mortgage Backed Securities may not be part of the cover pool. These regulations are fully in line with EBA Best Practices. Covered bonds issued under the HypoBG have a fixed ("hard") LTV limit of 60%, whereas in the case of public sector covered bonds and covered bonds issued under CBA there are no LTV limits.

Systemic Relevance and External Support

According to the ECBC[3], in the last five years the total amount of covered bonds outstanding in Austria has increased from EUR 41.7bn in 2014 to EUR 65.7bn in 2019. As of 2019, EUR 49,1bn of the total outstanding amount of covered bonds were secured by mortgages and EUR 16,6bn by public sector loans. Over the years, there has been a shift from public sector to more mortgage-backed securities. While mortgage covered bond issuance are at record high of about EUR 11bn annually in 2018 and 2019, public sector covered bond issuance are at a low at about EUR 2bn annually.

With a market share of just over 4% in terms of the total outstanding covered bonds and less than 5% in the terms of the mortgage sector in Austria in 2019, Raiffeisen-Landesbank Steiermark AG is not a major covered bonds issuer in Austria. Likewise, the positioning of Raiffeisen-Landesbank Steiermark AG in the Austrian banking sector is not classified as systemically important. The total assets of Raiffeisen-Landesbank Steiermark AG account for less than 2% of the total Austrian banking sector. Accordingly, we see no increased likelihood of external sup-

[3] EMF-ECBC (2020), ECBC: European Covered Bond Fact Book 2020, EMF-ECBC

port for the government, both for the covered bonds program of Raiffeisen-Landesbank Steiermark AG and for the issuer itself in our qualitative analysis, but from the Province of Styria and the "Landesbankenverbund" in Austria.

Summary Structural Risk

In general, CBA provides clear rules on public supervision, insolvency and segregation of cover assets, the priority of creditors' claims in the event of insolvency, the relevant eligibility criteria for cover pool assets, and the rules for its fiduciary management, which provide adequate structural support for the covered bond programs in Austria.

CRA considered the structural framework in Austria under the legal framework (CBA) as positive. Due to those reasons CRA has set a rating uplift of three (+3) notches.

Liquidity- and Refinancing Risk

Minimum Overcollateralization

According to HypoBG and PfandBG, issuers must maintain a minimum level of overcollateralization (OC) of 2% of the nominal value of the outstanding covered bonds in the form of liquid funds. According to CBA, on the other hand, there is no obligation to provide a certain level of overcollateralization. The supervisory authorities, however, are aiming for the introduction of a general minimum OC level. In order to ensure an internationally comparable standard, issuers may maintain OC on a present value basis and, in order to comply with rating requirements and stress tests, may also provide higher OC level at their discretion.

Short-term Liquidity Coverage

All three legal frameworks invoke the "natural" matching principle whereby the total amount of assets in the cover pool must be at least equal to the total nominal amount of outstanding covered bonds, including interest on the outstanding covered bonds and any operational costs in the event of default issuers. In addition, a matching formula restricts the issuance of covered bonds with a significantly longer maturity than the term of the cover pool assets.

However, under the current legal frameworks, issuers are not required to hold a time-based liquidity buffer to cover outflows from liabilities (interest and principal) or derivative transactions over a certain future period of time.

Stress Tests

Issuers may conduct voluntary stress tests to monitor the cover pool for interest rate-, currency- and other risks; however, there are no regulatory obligations that require issuers to perform specific stress tests on their covered bond programs. This also applies to the review of LTV ratios and valuations in the case of mortgage backed securities, for which there is no regulation in terms of type and frequency of review. This is in marked departure from EBA Best Practices and has been considered in the CRA legal and regulatory framework assessment.

Asset-Liability Mismatch

An asset-liability mismatch ("ALM") arises in the case of different maturities between cover assets and covered bonds. Current legislation in Austria uses natural matching as the essential approach to reduce ALM risks. On the other hand, there is no statutory requirement for liquidity

reserves as a further protective mechanism to ensure the servicing of pending capital and interest payments.

Repayment Method

The present covered bond program issues covered bonds with hard bullet maturity, i.e. repayment at the legal final maturity without extension optionality at the end of the term. Maturity mismatches between cover assets and liabilities arising from maturing covered bonds thus cannot be mitigated by an extension of the legal final maturity. This feature of the covered bond program has been considered qualitatively and within our cash flow analysis.

Refinancing costs

In the event of a bankruptcy of the issuer, the legal frameworks provide that the special administrator may sell assets of the cover pool or use them as a guarantee for liquidity operations when liquidity shortfalls are foreseeable.

CRA's analysis assumes that refinancing gaps due to ALM will be closed by a sale of assets from the cover pool. In doing so, CRA takes into account related costs in the form of a discount to the nominal value. The quantification of this discount takes place following an analysis of relevant market data and enters into the cash flow analysis.

Other liquidity risks

Derivatives can be an additional measure to hedge interest rate and currency risks. However, the legal framework does not provide for regular stress tests to be conducted on interest rate- and foreign exchange risks.

Summary Liquidity- and Refinancing Risks

In comparison to other jurisdictions, the regulatory requirements for liquidity and risk management are relatively weak and barely in line with the requirements of EBA Best Practices. Overall, sufficient structural safeguards are not established due to the absence of compulsory liquidity buffers and no obligation to conduct stress tests for interest rate and currency risks, and the minimum coverage tests (for example, the revaluation of LTV ratios). These also applies for the CBA, in particular the absence of a prescribed minimum coverage. In addition, refinancing risks cannot be structurally reduced due to the hard bullet repayment structure, which can only be cushioned by sufficiently high overcollateralization, short-term cash availability, or other liquid funds to bridge the asset-liability mismatches in the portfolio.

Therefore, CRA assesses the overall legal provisions on liquidity management for covered bonds programs under the CBA as negative and do not apply any additional rating upgrade for this part of the primary rating uplift.

ESG Criteria

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing Covered Bond ratings. Overall, ESG factors have a significant impact on the current rating of this Covered Bond program. CRA identifies governance factors, in particular, to have a highly significant impact on Covered Bond ratings. Since Covered Bonds are subject to strict legal requirements, regulatory risk plays an important role in assessing the credit rating.

Overall, the CBA provides clear rules and an adequate structural framework for covered bond holder, but covered bonds are subject to less stringent legal requirements compared to other covered bond laws. Additionally, risk management and internal controls as well as macroeconomic factors such as interest rates and yield curves are considered to have a significant impact on the assessment of creditworthiness. Other individual factors with a potential influence on the key rating were not identified and therefore had no influence on the final rating.

Credit and Portfolio Risk

Cover pool analysis

The analysis of the cover pool is based on public information which has been made available by the Issuer, in particular the Austrian Transparency Template („ATT") as per regulatory requirements. This information was sufficient according to CRA´s rating methodology "Covered Bond Ratings".

At the cut-off-date 30.09.2020, the pool of cover assets consisted of 27,446 debt receivables from 23,021 debtors, of which 95.78% are domiciled in Austria. The total cover pool volume amounted to EUR 4,303.00 m in residential (67.37%), commercial (32.63%) and others (0.00%) loans.

The residential cover pool consists of 23,536 mortgage loans having an indexed weighted average LTV of 60.00%. On the other hand, the non-residential cover pool consists of 3,910 mortgage loans having an indexed weighted average LTV of 51.00%. The ten largest debtors of the portfolio total to 5.02%. Table 3 displays additional characteristics of the cover pool:

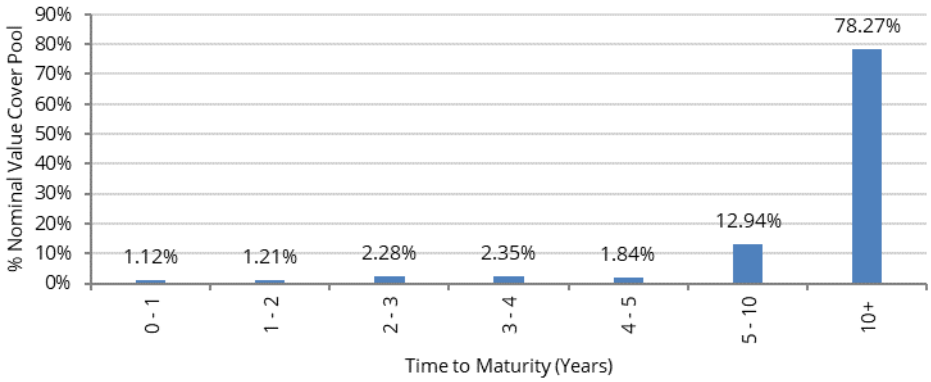
Table 3: Cover pool characteristics | Source: RLB Steiermark

Characteristics	Value
Cover assets	EUR 4,303.00 m.
Covered bonds outstanding	EUR 2,866.00 m.
Substitute assets	EUR 0.00 m.
Cover pool composition	
Mortgages	100.00%
Substitute assets	0.00%
Other / Derivative	0.00%
Number of debtors	23,021
Mortgages Composition	
Residential	67.37%
Commercial	32.63%
Other	0.00%
Average asset value (Residential)	EUR 123,187.75 k.
Average asset value (Commercial)	EUR 359,002.39 k.
Non-performing loans	0.00%
10 biggest debtors	5.02%
WA seasoning	NR
WA maturity cover pool (WAL)	16.82 Years

WA maturity covered bonds (WAL)	6.89 Years

CRA has listed an extended view of the composition of the cover pool in the appendix section "Cover pool details". The following chart displays the maturity profile of the cover assets at the cut-off date 30.09.20 (see figure 2):

Figure 2: Distribution by remaining time to maturity I Source: RLB Steiermark



Maturity profile

The following charts present the cash flow profile of the Issuer (see figure 3 and figure 4):

Figure 3: Cover asset congruence | Source: RLB Steiermark

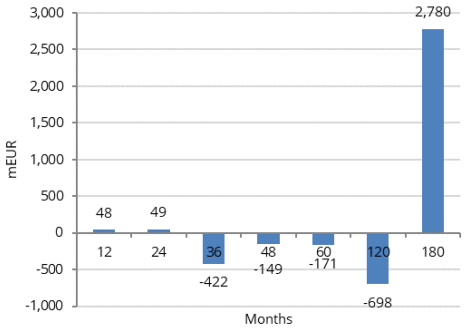
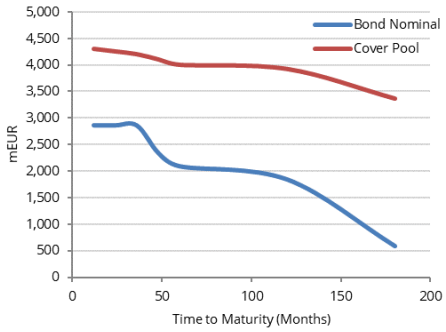


Figure 4: Amortization profile | Source: RLB Steiermark



During its cash flow modelling, CRA has taken into consideration the maturity structure of cover assets and liabilities. This structure was an integral part of the cash flow analysis.

Interest rate and currency risk

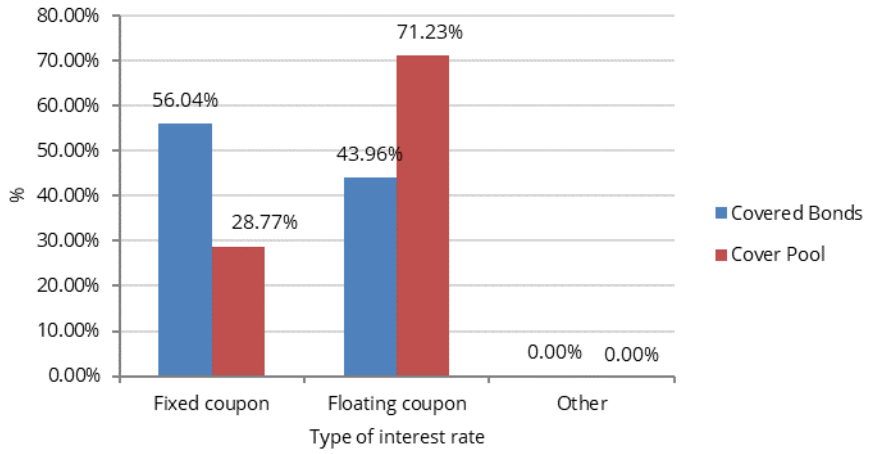
This covered bond program does not use derivatives to hedge interest rate- or currency risks. The legal framework also does not stipulate weekly stress tests to be conducted on interest rate- and currency risks. However, the current level of over-collateralization could mitigate the uncovered share of interest rate risks. Currency risk, on the other hand, is also limited for this program as 99.23% of the cover pool assets and 100.00% of the cover bonds are denominated mainly in euro. Nevertheless, CRA has applied interest rate and foreign exchange stresses on the cash flows for each rating level according to our methodology.

Table 4: Program distribution by currency | Source: RLB Steiermark

Currency	Volume	Share (%)
Cover Pool		
EUR	4,270 m	99.23%
CHF	33 m	0.77%
Covered Bond		
EUR	2,866 m	100.00%

Figure 5 shows the types of interest rate used in this program.

Figure 5: Type of interest rate | Source: RLS Steiermark



Credit Risk

The credit risk assessment for Mortgage Covered Bonds have been determined in accordance with CRA rating methodology for Covered Bonds by means of historical data and particular parameters from the Covered Bonds.

Due to the high granularity of mortgage pools CRA has characterized these portfolios as big enough and with a homogeneous composition i.e. ("Large Homogeneous Portfolio", LHP). Furthermore, under that premise CRA has assumed that it is possible to derive a loss distribution. CRA has used the issuer's historical NPL ratios to derivate a conservative default rate proxy for the approximation through the LHP distribution. For the RLB Steiermark it has been assumed an expected default rate of 2.34% for the LHP. Furthermore, CRA has considered a 15.00% correlation to define the LHP distribution. Table 5 disclosed the expected default rate for each relevant rating level.

In order to derive recovery and loss-severity base case assumption, CRA has used historical data from mortgage price indexes. To determine loan-level recovery assumptions the resulting stressed recoveries assumptions were compared with the portfolio's existing loan-to-value ratios (LTVs).

Based on the default rates and taking into account the recovery assumptions, the following loss assumptions were determined for the current cover pool (see Table 5).

Table 5: Cover Pool Base case assumptions | Source: CRA

Rating	Default Rate (%)	Recoveries (%)	Expected Loss (%)
AAA	48.35%	82.15%	8.63%
AA+	**45.73%**	**83.40%**	**7.59%**
AA	40.46%	85.57%	5.84%
AA-	36.42%	86.97%	4.74%
A+	34.66%	87.61%	4.29%
A	34.64%	87.62%	4.29%
A-	33.65%	87.99%	4.04%

Cash-Flow Analysis

Model Assumptions

Based on public information and using the base case loss assumptions, we implement a scenario-based cash flow model. This model aims to test the ability of the structure to service all covered bonds according to their payment profile in diverse stress scenarios. The CRA cash flow analysis assumes that the Issuer has defaulted, i.e. all obligations will be met using cash flows from the cover pool assets only. We also assume that no additional assets will be added to the cover pool during the wind-down phase.

Asset-Sale Discount

In our model, short-term liquidity needs and liquidity needs due to asset-liability mismatches will be met with a sale of cover assets available for monetization. Based on secondary market data, CRA assumes a rating-level haircut on the asset value („Asset-Sale Discount") which represents additional costs of disposal and market risks during the sale of cover assets. (see Table 6).

Yield Spread

Since cover assets often have a positive yield spread against the covered bonds issued, CRA uses available public information (i.e. issuers´ annual accounts) to size this assumed spread („Yield Spread"). However, historical net interest margins of RLB Steiermark resulted in negative yields due to high variances while stressing. Therefore, the negative yield spreads have been floored to zero in our cash flow analysis (see table 6):

Table 6: Cash-Flow Model assumptions | Source: CRA

Rating level	Asset-Sale Discount	Yield Spread
AAA	74.29%	0.00%
AA+	**68.51%**	**0.00%**
AA	64.78%	0.00%
AA-	61.23%	0.00%
A+	58.51%	0.00%
A	56.27%	0.00%
A-	53.34%	0.00%

Rating Scenarios

In our cash flow model rating scenarios have been tested considering several central input parameters, such as:

- Portfolio composition (diversification, concentration, granularity)
- Probability of default of cover assets
- Correlations of cover assets and systematic risk factors
- Recoveries
- Maturity profile of covered bonds and cover assets (ALM)

Within an AA+ rating scenario, the cash flow model showed that obligations can be paid fully and in a timely manner. Overall, the cash flow analysis revealed that the portfolio, given all used information as of 30.09.2020, may ensure the repayment of bonds' nominal capital notwithstanding the occurrence of the presented stressed scenarios. On this basis, the rating of the cover pool within our covered bond program rating has been set at AA+.

Overcollateralization Break-Even Analysis

CRA also performed a break-even OC analysis. Such OC levels should bear the corresponding losses for a given rating scenario. Main drivers of the analysis are:

- ALM
- Loss level
- Interest rate spreads
- Foreign currency mismatches
- Recoveries.

Performing the break-even OC analysis, we took rating-level specific stressed outcomes into account. Based on these analyses, the maximum OC required for each relevant rating level during the whole period has been presented in table 7.

Table 7: Breakeven Analysis | Source: CRA

Rating Level	Break-Even OC
AAA	52.88%
AA+	**48.61%**
AA	44.34%
AA-	41.14%
A+	39.21%
A	38.11%
A-	36.35%

Sensitivity Analysis

CRA also evaluates the sensitivity of the structure and program with respect to important input parameters. In particular, the following factors have been varied:

- Credit quality of cover assets
- Recoveries

The following table presents the rating impact of a decline in recoveries and an increase in the credit risk of single debtor. Starting from the best-case, which is represented by our base case

assumptions, the analysis reveals the sensitivity of the rating with respect to recovery rates and credit risk. Based on the base case, there is a high sensitivity of rating in terms of decreased recovery rates and increased defaults. The worst-case scenario, in which CRA reduces recoveries by 50% and increase credit risk by 50%, the impact can be seen by a reduction in the base case rating by 10 notches to BB (see Table 8):

Table 8: Covered Bond Program Sensitivity: Credit Quality und Recovery Rates | Source: CRA

Recovery / Defaults	Base Case	-25%	-50%
Base Case	**AA+**	A+	BBB-
+25%	AA	BBB+	BB+
+50%	AA	BBB	BB

Summary Cash-Flow Analysis

Based on public information and using the base case loss assumptions, the analysis showed that obligations can be paid in full and in a timely manner. Overall, the cash flow analysis revealed that the portfolio, given the used information, may ensure the repayment of bonds' nominal capital notwithstanding the occurrence of the presented stressed scenarios. Therefore, the rating of the cover pool within our covered bond program rating has been set at AA+. Consequently, the secondary rating uplift was set at two (+2) notches.

However, it is worth mentioning that, the ongoing Covid-19 crisis could have a potential impact on the cover pool. It remains to be seen how serious the effects of the lockdown, among other things, will be. Should there be any changes to the cover pool and the issuer rating in the future, CRA will include them during our monitoring process.

Counterparty Risk

Table 9: Participant counterparties | Source: RLB Steiermark

Role	Name	Legal Entity Identifier
Issuer	RLB Steiermark	529900UNUKYZ9HND3309

Derivatives

No derivatives in use at present.

Commingling

Incoming cash flows generated from the cover pool will normally be transferred to the Issuer and will be forwarded to the covered bond holders according to the payment terms and conditions. Should the issuer become bankrupt, there is a risk ("commingling risk") that funds may not be returned and commingled with the insolvency estate of the issuer. In order to avoid such risk, CBA stipulates that the assets of the cover pool are kept strictly separate (cover register). In the event of insolvency, the cover pool is also controlled by a special cover pool administrator. The exclusive function of the cover pool administrator is to ensure the orderly payment of all claims by means of the liquidity inflows from the cover pool.

Appendix

Rating History

Event	Rating Date	Publication Date	Result
Initial Rating	02.03.2021	10.03.2021	AA+ / Stable

Details Cover Pool

Table 10: Characteristics of Cover Pool | Source: RLB Steiermark

Characteristics	Value
Cover Pool Volume	EUR 4,303.00 m.
Covered Bonds Outstanding	EUR 2,866.00 m.
Substitute Assets	EUR 0.00 m.
Share Derivatives	0.00%
Share Other	0.00%
Substitute Assets breakdown by asset type	
Cash	0.00%
Guaranteed by Supranational/Sovereign agency	0.00%
Central bank	0.00%
Credit institutions	0.00%
Other	0.00%
Substitute Assets breakdown by country	
Issuer country	0.00%
Eurozone	0.00%
Rest European Union	0.00%
European Economic Area	0.00%
Switzerland	0.00%
Australia	0.00%
Brazil	0.00%
Canada	0.00%
Japan	0.00%
Korea	0.00%
New Zealand	0.00%
Singapore	0.00%
US	0.00%
Other	0.00%
Cover Pool Composition	
Mortgages	100.00%
Total Substitute Assets	0.00%
Other / Derivatives	0.00%
Number of Debtors	23,021
Distribution by property use	
Residential	67.37%
Commercial	32.63%

Other	0.00%
Distribution by Residential type	
Occupied (main home)	90.10%
Second home	0.00%
Non-owner occupied	9.90%
Agricultural	0.00%
Multi family	0.00%
Other	0.00%
Distribution by Commercial type	
Retail	21.49%
Office	23.90%
Hotel	13.07%
Shopping center	0.00%
Industry	11.75%
Land	0.00%
Other	29.78%
Average asset value (Residential)	EUR 123,187.75 k.
Average asset value (Commercial)	EUR 359,002.39 k.
Share Non-Performing Loans	0.00%
Share of 10 biggest debtors	5.02%
WA Maturity (months)	NR
WAL (months)	201.90
Distribution by Country (%)	
Austria	95.78
Germany	4.22
Distribution by Region (%)	
Vienna	12.28
Lower Austria	1.79
Upper Austria	1.23
Salzburg	1.51
Tyrol	0.63
Styria	76.68
Carinthia	5.11
Burgenland	0.74
Voralberg	0.03

Figure 6: Program currency mismatches | Source: RLB Steiermark

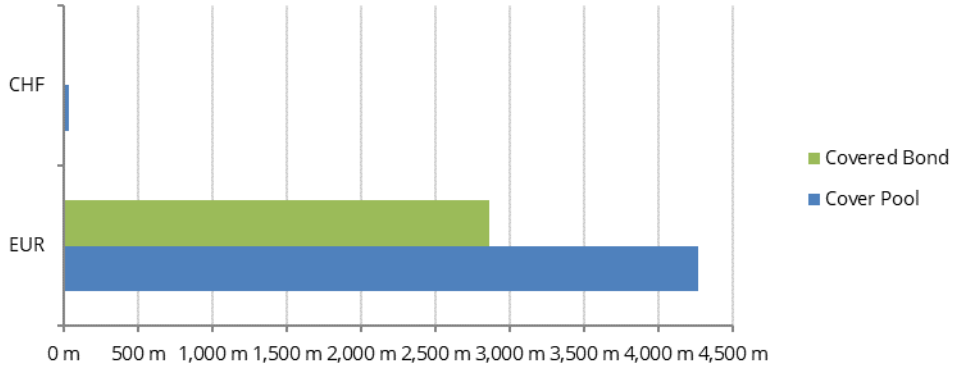


Figure 7: Indexed LTV breakdown - residential pool | Source: RLB Steiermark

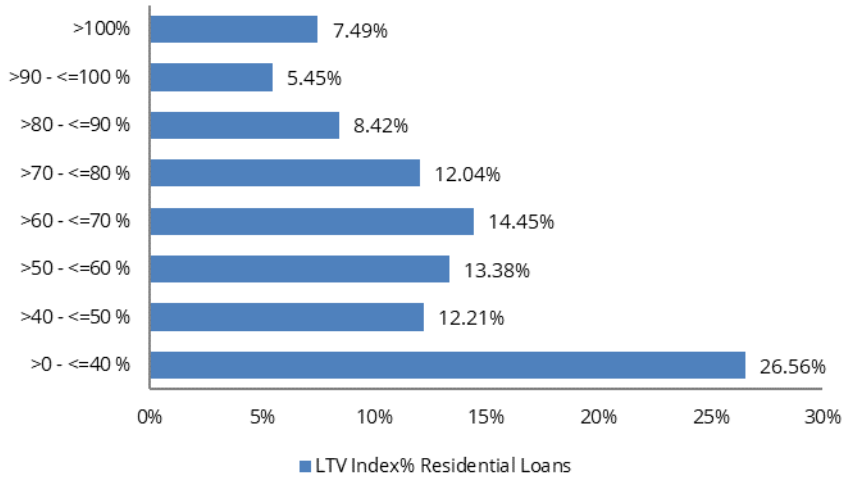
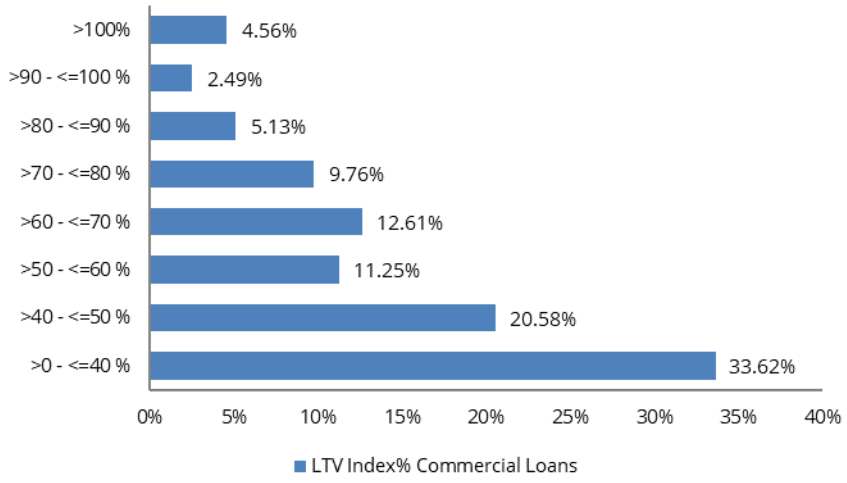


Figure 8: Indexed LTV breakdown - commercial pool | Source: RLB Steiermark



Key Source of Information

Documents (Date: 30.09.2020)
Issuer ▪ Audited consolidated annual reports of RLB Steiermark (Group) 2017-2019 ▪ Miscellaneous Investor Relations Information and Press releases ▪ Peergroup-Data and other data from CRA/ eValueRate databank
Covered Bond and Cover Pool ▪ ATT Reporting from RLB Steiermark as of 30.09.2020 ▪ Market data Mortgage Covered Bond Program

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Creditreform Rating AG was neither commissioned by the rating object nor by any other third parties for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The rating was conducted on the basis of Creditreform Rating´s "Covered Bond Ratings" methodology (v1.0, July 2017) and "Technical Documentation Portfolio Loss Distributions" (v.1.0, July 2018) in conjunction with Creditreform`s basic document "Rating Criteria and Definitions" (v1.3, January 2018). On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document "The Impact of ESG Factors on Credit Ratings" (March 2020).

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

The rating is based on publicly available information and internal evaluation methods for the rated bank and program. The issuer's quantitative analysis is based mainly on the latest annual accounts, interim reports, other information of the bank pertaining to investor relations, and key figures calculated by eValueRate/CRA subject to a peer group analysis of 25 competing institutes. The cover pool's quantitative analysis for the rated Covered Bond Program was based on the "Austrian Transparency Template" (ATT) published by the RLB Steiermark.

A complete description of Creditreform Rating´s rating methodologies and Creditreform`s basic document "Rating Criteria and Definitions" is published on the following internet page:

https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html

This rating was carried out by analysts Philip Michaelis (Senior Analyst) and AFM Kamruzzaman (Analyst) both based in Neuss/Germany. On 02.03.2021, the rating was presented to the rating committee by the analysts and adopted in a resolution. The function of Person Approving Credit Ratings (PAC) was performed by Artur Kapica (Senior Analyst).

On 02.03.2021, the rating result was communicated to RLB Steiermark, and the preliminary rating report was made available. The Issuer and all relevant parties examined the rating report prior to publication and were given at least one full working day to appeal the rating committee decision and provide additional information. The rating decision was not amended following this examination.

The rating is subject to one-year monitoring from the creation date (see cover sheet). Within this period, the rating can be updated. After one year at the latest, a follow-up is required to maintain the validity of the rating.

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Endorsement

Creditreform Rating did not endorse the rating according Article 4 (3), CRA-Regulation.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

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To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants
2. Transaction documents
3. Issuing documents
4. Other rating relevant documentation

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore, CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

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aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery, and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings, are explained.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks, is indicated clearly and prominently in the rating report and/or press release as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the rating report and/or press release.

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Creditreform Rating AG

Contacts

Creditreform Rating AG

Europadamm 2-6
D - 41460 Neuss

Fon +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627
E-Mail info@creditreform-rating.de
Internet www.creditreform-rating.de

CEO:
Dr. Michael Munsch
Chairman of the board:
Dr. Hartmut Bechtold

HRB 10522, Amtsgericht Neuss