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Transaction Update: Deutsche Apotheker- und Aerztebank eG Mortgage Covered Bond Program

Hypothekenpfandbriefe

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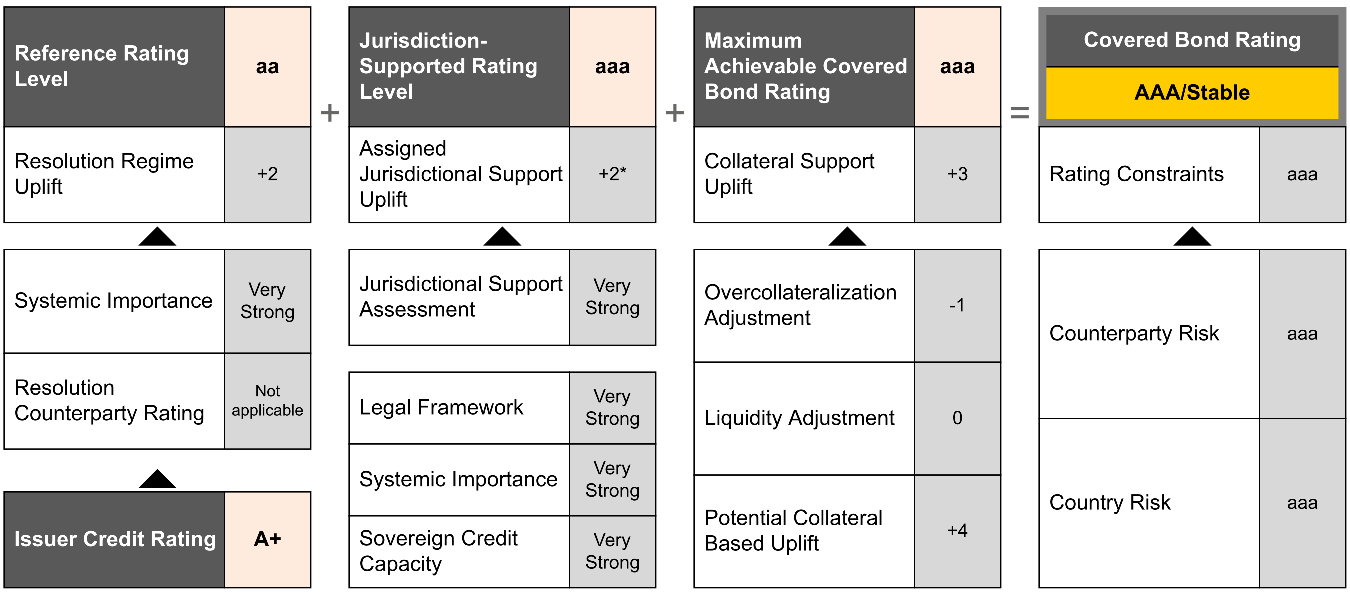
Ratings Detail



*The maximum jurisdictional support uplift is three notches above the RRL. However, only two notches are required to achieve a 'AAA' rating on the covered bonds. RRL--Reference rating level.

Strengths

- Four unused notches of uplift protect the 'AAA' rating if we downgraded the issuer.
- The cover pool predominantly comprises highly seasoned prime German residential loans.

Weaknesses

- The cover pool has no other available overcollateralization commitment apart from the legislative minimum.
- The exposure to assets with higher-than-average whole loan-to-value (LTV) ratios, which we have considered in our estimated default rate at the 'AAA' rating level.

Outlook

S&P Global Ratings' stable ratings outlook on Deutsche Apotheker- und Aerztebank eG's (Apobank) mortgage covered bonds reflects our view that we would not automatically lower the ratings if we were to lower our long-term issuer credit rating (ICR) on Apobank by up to four notches. All else being equal, we would lower the covered bond ratings if we were to lower our ICR on the issuer by five notches or more, or if the available overcollateralization no longer exceeds the level commensurate with the 'AAA' rating.

Rationale

We are publishing this transaction update as part of our annual review of Apobank's mortgage covered bond program.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014 and our "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

Apobank's mortgage covered bonds are issued under the German Covered Bond Act (Pfandbriefgesetz; "PfandBG"). From our analysis of the legal and regulatory framework for German covered bonds, we have concluded that the assets in Apobank's cover pool are isolated from its bankruptcy or insolvency risks. This enables us to rate the covered bonds higher than Apobank's long-term ICR. Based on our operational risk analysis--which covers a review of origination, underwriting, collection, and default management procedures, as well as cover pool management and administration--we conclude that operational risk does not constrain the covered bond ratings.

Under our resolution regime analysis, we determined a reference rating level (RRL) of 'aa'. This is based on (i) Apobank being domiciled in Germany, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD), and (ii) our very strong assessment of the systemic importance of mortgage covered bonds in Germany. These factors increase the likelihood that Apobank would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations.

Our jurisdictional support analysis determined the jurisdiction-supported rating level (JRL) of the covered bonds as 'aaa'. We considered the likelihood for the provision of jurisdictional support of German mortgage covered bonds, which we assess as very strong, resulting in a jurisdictional support uplift from the RRL of up to three notches. Apobank's covered bonds use two notches to achieve a JRL of 'aaa'.

Under our covered bonds criteria, when the covered bond rating is based on its JRL, we expect the available overcollateralization to cover a 'AAA' credit stress level, which we have determined as 8.16% in our collateral support analysis. Apobank's covered bonds exceed this requirement with an available overcollateralization level of 100.28%.

Counterparty or sovereign risks do not constrain the ratings on the program and related issuances.

Program Description

Table 1

Program overview*	
Jurisdiction	Germany
Rating at closing/year	AAA/2008
Covered bond type	Legislation-enabled
Outstanding covered bonds (€)	4,216,600,000

Table 1

Program overview* (cont.)	
Redemption profile	Hard bullet, extendable by up to 12 months subject to certain conditions
Underlying assets	Residential mortgages, commercial mortgages, and substitute assets
Assigned jurisdictional support uplift	2
Unused notches for jurisdictional support	1
Target credit enhancement (%)	8.16
Credit enhancement commensurate with current rating (%)	8.16
Available credit enhancement (%)	100.28
Assigned collateral support uplift	0
Unused notches for collateral support	3
Total unused notches	4

*Based on data as of March 31, 2024.

Apobank (A+/Stable/A-1) is a leading member of the German cooperative banking sector, and it specializes in lending business and payment services to the medical sector in Germany. Its core customer groups are self-employed and employed doctors, dentists, and pharmacists, but the bank has steadily diversified into related corporate lending to medical organizations, hospitals, long-term care facilities, and corporations acting in pharmaceuticals, medical technology, and dentistry.

The covered bonds are regulated by the German covered bond framework and issued under Apobank's €15 billion debt issuance program or using standalone documentation. We have rated the program since 2008.

The covered bonds constitute the issuer's senior secured unsubordinated obligations and rank pari passu with all other obligations secured by the cover pool register. Covered bondholders have recourse to Apobank, and should insolvency proceedings against the issuer be launched, to the assets in the cover pool register.

We base our collateral analysis on stratified data as of March 31, 2024. Since our previous review, the cover pool has decreased by 4.6%, while the amount of outstanding covered bonds decreased by 5.1%. As a result, overcollateralization has increased to 100.28% from 99.10% since our previous annual review.

The covered bonds and cover pool assets are euro-denominated and predominantly pay a fixed interest rate.

Apobank provides the bank account for the program. The cover pool contains no swaps.

Deutsche Apotheker- und Aerztebank eG Mortgage Covered Bonds Program Structure

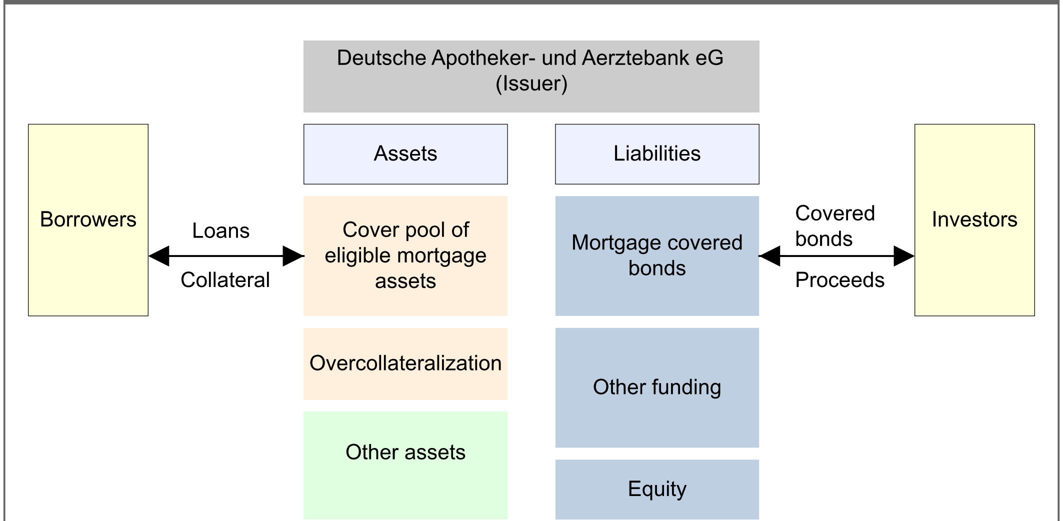


Table 2

Participants

Role	Name	Rating	Rating dependency
Issuer/ bank account provider	Deutsche Apotheker- und Aerztebank eG	A+/Stable/A-1	Yes

Rating Analysis

Legal and regulatory risks

We base our legal analysis on our "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," criteria, published on March 29, 2017, and our covered bond ratings framework.

The German Covered Bond Act and the relevant secondary legislation provide the legal framework to issue German covered bonds (Pfandbriefe). On April 15, 2021, and May 7, 2021, the German Bundestag and the Bundesrat, respectively, approved amendments to the PfandBG, implementing the EU's Covered Bonds Directive into the German Pfandbrief law and adjusting it to reflect changes to article 129 of the Capital Requirements Regulation (CRR), effective since July 8, 2022.

We consider that the German covered bond legal framework satisfies the relevant legal aspects of our covered bond criteria, allowing us to assign ratings to the covered bonds exceeding our long-term ICR on the issuer.

Covered bond investors have a preferential claim to a cover pool, which for mortgage covered bonds, may comprise exposure to properties and rights equivalent to real property located, among others, in a member state of the European Union, the European Economic Area, Great Britain, Switzerland, the U.S., Canada, Japan, Australia, New Zealand, or

Singapore. Mortgages can be used to cover only up to the first 60% of the property's mortgage lending value, as estimated in accordance with the Covered Bond Act. The cover pool can also include exposures to public sector entities from the same geographic locations as stipulated for the mortgage assets. Additionally, the cover pool can comprise other eligible substitute assets that meet the eligibility criteria outlined in the German Covered Bond Act.

According to the legal framework, the issuer must maintain overcollateralization of at least 2% on both nominal and net present value basis for the outstanding covered bonds and ensure that 180 days of liquidity needs are always covered.

An independent trustee is responsible for monitoring the cover pool (cover pool monitor) until an independent cover pool administrator is appointed in case of issuer's insolvency. BaFin, the German supervisory authority for financial institutions, appoints and supervises the cover pool monitor and cover pool administrator. BaFin also regularly conducts a covered bond audit.

The administrator can extend all outstanding covered bonds' maturity, subject to certain conditions, including avoiding imminent insolvency of the ringfenced Pfandbriefe, confirming it is not overindebted, and having no reason to believe that it will not be solvent when the extension period ends.

In addition, the extension cannot affect the covered bond investors' ranking or invert the sequencing of the covered bond programs' original maturities.

Our rating analysis considers the coverage of refinancing cost, which is the additional credit enhancement expected to be required to refinance the cover pool in a stressed environment (see "Related Criteria"). Our analysis of Apobank's covered bonds considers the covered bonds' extended maturity date when estimating the refinancing cost. In a stressed environment, we assume that an administrator will initiate an extension of all outstanding covered bonds (see "Approach To Analyzing German Covered Bonds Clarified Following Changes To The German Covered Bond Law," published on Oct. 6, 2021).

Operational and administrative risks

Our analysis of operational and administrative risks follows the guidelines in our criteria (see "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015).

In our opinion, the cover pool's management and loan origination processes do not give rise to any operational risk that would constrain the covered bond rating to the long-term ICR.

Apobank's cover pool comprises loans granted to medical professionals in Germany secured by residential properties, as well as commercial properties, including for example pharmacies, medical centers, rehabilitation and nursing homes, and office properties.

The cover pool does not include loans in arrears or defaulted loans as the issuer removes loans from the cover pool if a borrower's performance deteriorates beyond a predetermined threshold as measured by the borrower's bank internal rating.

Apobank has a track record of prudently managing refinancing risks within the covered bond program. These risks may arise if the issuer defaults, and they depend on the magnitude of timing mismatches between the maturities of the cover pool assets and covered bonds. Apobank has to date voluntarily maintained overcollateralization exceeding the credit enhancement required for a 'AAA' rating.

We believe that a replacement cover pool manager would be available if the issuer were to become insolvent. BaFin has the authority to appoint an independent administrator in such a scenario. Furthermore, we consider Germany to be an established covered bond market and believe that the mortgage assets in the cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers.

Resolution regime analysis

The RRL on Apobank, which is the starting point for any further uplift in our analysis, is 'aa'. The RRL reflects our assessment of the covered bonds' creditworthiness considering the resolution regime and is determined by considering the following factors:

- Apobank is domiciled in Germany, which is subject to the EU's BRRD.
- Without an assigned resolution counterparty rating (RCR) on Apobank, we add two notches of uplift to the ICR because we assess the systemic importance for German mortgage covered bonds as very strong.

These factors recognize that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations because the law exempts covered bonds from bail-in. We consider this as an internal form of support because the bail-in of certain creditors of the issuer does not require direct government support.

Jurisdictional support analysis

The JRL on Apobank's mortgage covered bonds is 'aaa'. The JRL is our assessment of the likelihood that the covered bonds in case of stress would receive support from a government-sponsored initiative instead of from the collateral assets' liquidation in the open market. Given our very strong jurisdictional support assessment of mortgage covered bonds in Germany, the covered bonds are eligible for three notches of jurisdictional support uplift above the RRL. Two notches are used to achieve a 'AAA' rating resulting in one unused notch for jurisdictional support.

We also consider that Apobank's cover pool continues to comply with legal and regulatory minimum standards in Germany and that the unsolicited long-term sovereign rating on Germany does not constrain the ratings on the covered bonds.

Collateral support analysis

We analyzed the residential mortgage loans based on the specific adjustments defined for Germany under our global RMBS criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019) and related German Supplement.

We analyze the cover pool's commercial portion using our commercial real estate (CRE) criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

We base our analysis on stratified data as of March 31, 2024. On that date, a cover pool of €8.44 billion backed €4.22

billion of covered bonds outstanding. Available credit enhancement as of March 31, 2024, was 100.28%.

Since our previous review, the cover pool's composition has remained stable, comprising exposures to German residential mortgages (77.77%; 77.43% previously), commercial mortgages (17.32%; 17.88% previously), and substitute assets (4.91%; see table 3).

All mortgage cover pool assets are in Germany, with the largest region being North Rhine-Westphalia (24.01% of the total mortgage exposure). Within the residential portfolio, none of the exposures exceeds the concentration limits specified for Germany in our global RMBS criteria. For the CRE portfolio, we assess regional exposures relative to the distribution of a country's GDP or population. In this respect, the commercial cover pool includes mortgages' regional concentrations (relative to the distribution of Germany's GDP) in Berlin and Bremen. In line with our CRE criteria, we considered this by increasing our base-case foreclosure frequency assumption for the share of such exposures (13.75% of the CRE portfolio) by 10%.

More than one-third of the cover pool's residential loans are for buy-to-let purposes, which we considered in our analysis by increasing our base foreclosure frequency assumption by 70%. In addition, we have increased the residential interest-only loans' base foreclosure frequency by 50%, which affects about one-fifth of the residential portfolio. A borrower of an interest-only loan pledges to Apobank additional security, such as a life insurance or holdings in an investment fund. However, these instruments do not form part of the cover pool. Therefore, in the event of an issuer insolvency and a borrower default, these pledged instruments might not be available to the cover pool administrator on priority for the covered bonds' repayment. Therefore, we do not give credit to these securities in our analysis.

Apobank's residential cover pool's sub-portfolio includes 21.1% of loans to medical professionals, who operate their own business as freelancers ("Freiberufler"). Given Germany's mandatory health insurance system, and the particularities of this professional group's remuneration, which is regulated and distinct from the remuneration of self-employed borrowers of other professions, we have not adjusted our foreclosure frequency for these borrowers. Furthermore, the German healthcare sector has remained resilient in the past. The annual income data of medical professionals provided by the issuer underpin this trend, reflecting this borrower group's stable or generally increasing income.

For the mortgage portfolio, we applied stresses that are commensurate with a 'AAA' rating scenario, to estimate the level of defaults as determined by the weighted-average foreclosure frequency (WAFF), and to estimate the level of losses determined by the weighted-average loss severity (WALS). The product of these two variables estimates the required loss protection, absent any additional factors. We assume that foreclosure probability is a function of both borrower and loan characteristics and will become more likely--and the realized loss on a loan more severe--as the economic environment deteriorates.

As of March 31, 2024, the WAFF and WALS for the combined pool of residential and commercial mortgages were 27.07% and 28.09%, respectively. The combined WAFF has slightly decreased since our previous review mainly due to higher original LTV ratios and higher whole loan current LTV ratios, respectively.

The higher WALS for the residential portfolio increased the combined WALS. German house prices have outpaced income levels over the past few years, leading the housing market's overvaluation, in our view. We incorporate this in our loss severity calculation of residential mortgages and have increased our overvaluation assumption for the German residential property market. This has led to higher loss severities in the residential portfolio. The WALS for the CRE portfolio decreased mainly due to a higher share of loans backed by investment properties, attracting a lower market value decline assumption under our CRE criteria compared to operating properties (75% and 85%, respectively).

Our analysis of the commercial mortgages also considers obligor concentration risk by applying a largest obligor test as outlined in our CRE criteria. The result of this test is 3.89% compared with 3.92% in our previous review.

In addition, we have determined a stressed refinancing spread of 606 basis points (bps) for the mortgage portfolio. Our related calculation is a function of the nature of the assets and is outlined in our covered bonds criteria.

The cover pool includes 4.9% of substitute assets used to manage liquidity and overcollateralization requirements. We classify the subpool of substitute assets as non-granular, according to our public sector criteria. Considering the 'AAA' rating on Kreditanstalt für Wiederaufbau; KfW and the German state of Bavaria, we assume these assets are available to make payments under the covered bonds.

Table 3

Pool composition

	March 31, 2024		March 31, 2023	
Asset type	**Value (Mil. €)**	**Percentage of cover pool**	**Value (Mil. €)**	**Percentage of cover pool**
Residential	6,567.7	77.8	6,851.5	77.4
Commercial	1,462.3	17.3	1,582.1	17.9
Substitute	415.0	4.9	415.0	4.7
Total	8,445.0	100.0	8,848.6	100.0

Table 4

Key credit metrics

	March 31, 2024	March 31, 2023
Residential mortgage assets		
Weighted-average original LTV ratio (%)	93.49	92.76
Weighted-average cover pool LTV ratio, indexed (%)	52.72	55.35
Weighted-average loan seasoning (months)*	75.60	71.43
Balance of loans in arrears (%)	0.00	0.00
Buy-to-let loans (%)	36.82	36.46
Interest only loans, residential (%)	22.03	22.02
Residential mortgages credit analysis results		
WAFF (%)	25.42	25.53
WALS (%)	28.09	22.92
Commercial mortgage assets		
Weighted-average whole-loan LTV ratio (%)	72.70	73.01

Table 4

Key credit metrics (cont.)		
Weighted-average cover pool LTV ratio, indexed (%)	55.88	56.19
Investment properties / operating properties (%)	60.89 / 39.11	50.24 / 49.76
Balance of loans in arrears (%)	0.00	0.00
Commercial mortgages credit analysis results		
WAFF (%)	34.51	34.73
WALS (%)	60.38	62.64
Largest obligor test (% of covered bonds)	3.89	3.92
Combined mortgage pool credit analysis results		
WAFF (%)	27.07	27.25
WALS (%)	33.97	30.37
AAA credit risk (%)	8.16	7.34

*Seasoning refers to the elapsed loan term. LTV--Loan-to-value. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Table 5

Total mortgage cover pool assets by loan size		
	March 31, 2024	**March 31, 2023**
(€ '000s)	**--Percentage of mortgage cover pool balance--**	
Residential mortgage assets		
< 250	74.07	75.51
250 - 400	13.51	13.14
400 - 500	3.66	3.55
500 - 600	2.20	2.06
600 - 700	1.24	1.17
> 700	5.32	4.56
Total	100.00	100.00
Commercial mortgage assets		
< 500	34.66	33.19
500 - 1,000	8.69	7.57
1,000 - 2,500	8.23	8.09
2,500 - 5,000	12.83	12.40
5,000 - 10,000	16.79	17.08
10,000 - 50,000	18.80	21.67
Total	100.00	100.00

Table 6

Loan-to-value ratios as reported		
	As of March 31, 2024	**As of March 31, 2023**
Residential mortgages - original LTV ratio (%)		
[0 - 40]	3.31	3.27
(40 - 50]	3.6	3.63

Table 6

Loan-to-value ratios as reported (cont.)

	As of March 31, 2024	As of March 31, 2023
(50 - 60]	5.63	5.53
(60 - 70]	9.8	10.46
(70 - 80]	13.11	13.95
(80 - 90]	14.25	14.28
(90 - 100]	13.04	13.31
>100	37.27	35.57
Weighted-average residential mortgages original LTV ratio (%) - whole loan	95.52	94.51
Residential mortgages - current LTV ratio (%)		
[0 - 40]	12.32	11.94
(40 - 50]	8.14	7.92
(50 - 60]	79.54	80.14
Weighted-average residential mortgages current LTV ratio (%) - whole loan	54.99	55.15
Commercial mortgages - current LTV ratio (%) - whole loan		
[0 - 40]	9.69	8.69
(40 - 50]	5.75	7.46
(50 - 60]	16.86	19.10
(60 - 70]	21.08	18.76
(70 - 80]	16.04	14.61
(80 - 90]	9.09	9.02
(90 - 100]	6.50	5.47
>100	15.00	16.89
Weighted-average residential mortgages original LTV ratio (%) - whole loan	72.70	73.01
Commercial mortgages - current LTV ratio (%)		
[0 - 40]	10.5	9.3
(40 - 50]	5.42	6.72
(50 - 60]	84.07	83.98
Weighted-average commercial mortgages cover pool current LTV ratio (%)	55.88	56.19

WAFF--Weighted-average foreclosure frequency. LTV--Loan-to-value. WALS--Weighted-average loss severity.

Table 7

Residential mortgages loan seasoning distribution*

	March 31, 2023	March 31, 2022
Remaining term to maturity (months)	**--Percentage of residential mortgage portfolio--**	
>0 and <=5 years	43.4	49.7
>5 and <=6 years	13.7	12.8
>6 and <=7 years	12.6	11.7
>7 and <=8 years	11.0	7.7
>8 and <=9 years	6.7	5.8
>9 and <=10 years	4.4	4.4
>10 years	8.2	7.9

Table 7

Residential mortgages loan seasoning distribution* (cont.)

	March 31, 2023	March 31, 2022
Remaining term to maturity (months)	**--Percentage of residential mortgage portfolio--**	
Total	100.0	100.0
Weighted-average loan seasoning (years)	6.0	5.7

*Seasoning refers to the elapsed loan term.

Table 8

Geographic distribution of loan assets

	March 31, 2024	March 31, 2023
Residential mortgages	**--Percentage of total residential/commercial cover pool--**	
Baden-Wuerttemberg	9.82	9.89
Bavaria	10.35	10.27
Berlin	9.08	8.97
Brandenburg	3.98	3.90
Bremen	0.96	0.91
Hamburg	2.88	3.02
Hesse	8.03	8.13
Lower Saxony	7.50	7.48
Mecklenburg-Vorpommern	2.51	2.55
North Rhine-Westphalia	25.38	25.29
Rhineland-Palatinate	3.54	3.61
Saarland	0.67	0.69
Saxony	7.77	7.77
Saxony-Anhalt	2.05	2.02
Schleswig-Holstein	3.65	3.63
Thuringia	1.84	1.87
Total	100.00	100.00
Commercial mortgages		
Baden-Wuerttemberg	5.84	6.52
Bavaria	10.06	11.47
Berlin	11.14	10.32
Brandenburg	3.78	3.94
Bremen	2.61	2.70
Hamburg	5.99	5.62
Hesse	10.68	12.49
Lower Saxony	8.68	8.13
Mecklenburg-Vorpommern	2.14	2.07
North Rhine-Westphalia	24.67	22.42
Rhineland-Palatinate	4.03	3.86
Saarland	0.84	0.98
Saxony	4.05	4.04

Table 8

Geographic distribution of loan assets (cont.)

	March 31, 2024	March 31, 2023
Residential mortgages	**--Percentage of total residential/commercial cover pool--**	
Saxony-Anhalt	1.31	1.27
Schleswig-Holstein	2.42	2.47
Thuringia	1.76	1.71
Total	100.00	100.00

Our credit analysis results form the inputs to our cash flow analysis. We stress the cover pool's cash flows, incorporating various default patterns, default timings, interest rate paths, prepayment rates and delinquency assumptions.

Our analysis of the covered bonds' payment structure shows that cash flows from the cover pool assets would be sufficient, at the current rating level, to make timely payment of interest and ultimate payment of principal to the covered bondholders. Given the JRL, the program only needs to cover 'AAA' credit risk to reach a 'AAA' rating on the covered bonds.

We consider that Germany has an active secondary mortgage market. Therefore, the program can benefit from up to four notches of collateral-based uplift above the JRL. We then consider whether we need to adjust the maximum collateral-based uplift by reviewing the six months' liquidity coverage and the level of overcollateralization commitment.

The covered bonds benefit from at least 180 days of liquidity coverage. However, the issuer provides overcollateralization that exceeds the legal minimum requirement, to support the covered bond ratings, on a voluntary basis only. Consequently, we reduce the maximum potential collateral-based uplift above the JRL by one notch.

The available credit enhancement exceeds the credit enhancement commensurate with a 'AAA' rating, which corresponds to the 'AAA' credit risk. It also exceeds the target credit enhancement commensurate with the maximum potential collateral-based uplift (see table 9). As a result, Apobank's mortgage covered bonds benefit from three unused notches of collateral-based support.

The combination of increased market interest rates and the assets' weighted-average life being much shorter than the liabilities' weighted-average life results in the target credit enhancement (TCE) being floored by the 'AAA' credit risk of 8.16%. Both 'AAA' credit risk and the TCE have increased since our previous review, mainly due to the higher loss protection that we calculated for the mortgage portfolio.

Table 9

Collateral uplift metrics

	March 31, 2024	March 31, 2023
Asset WAM (years)	4.79	5.34
Liability WAM (years)	7.84	8.73
Maturity gap (years)	(3.05)	(3.39)
Available credit enhancement (%)	100.28	99.11

Table 9

Collateral uplift metrics (cont.)	March 31, 2024	March 31, 2023
Required credit enhancement for 'AAA' rating based on the JRL (%)	8.16	7.34
Required credit enhancement for first notch of collateral uplift (credit risk at 'AAA' and 25% of refinancing costs; %)	8.16	7.34
Required credit enhancement for second notch of collateral uplift (credit risk at 'AAA' and 50% of refinancing costs; %)	8.16	7.34
Required credit enhancement for third notch of collateral uplift (credit risk at 'AAA' and 75% of refinancing costs; %)	8.16	7.34
Target credit enhancement for maximum uplift (credit risk at 'AAA' and 100% of refinancing costs; %)	8.16	7.34
Potential collateral-based uplift (notches)	4.00	4.00
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral support uplift (notches)	3.00	3.00

WAM--Weighted average maturity. JRL--Jurisdiction-supported rating level.

Counterparty risk

We have assessed counterparty risk by applying our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

Apobank collects payments from borrowers related to cover pool assets in an account on its own books. While the bank generally reinvests these balances promptly in cover pool assets, the cash received from the cover pool assets could be commingled with the cash belonging to the bank if it becomes insolvent, resulting in a loss to the cover pool.

We have determined that the German Covered Bond Act effectively segregates cash received after the issuer's insolvency, but the cash received shortly before insolvency and not reinvested in the cover pool assets could be exposed to commingling risk. Apobank's covered bond program contains mitigating factors that are consistent with a 'AAA' rating to address such risk. To address this risk, Apobank has stated on its website that it commits itself to increasing overcollateralization within 60 ` days upon loss of the minimum ICR (assigned by S&P Global Ratings) that would be required in accordance with our counterparty criteria to maintain the covered bond ratings. The minimum rating to support the 'AAA' covered bond ratings according to these criteria is 'A'.

Sovereign risk

We consider sovereign risk to be in line with our structured finance sovereign risk criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019).

The cover pool assets are in Germany. Since our unsolicited long-term sovereign rating on Germany is 'AAA/Stable', country risk does not constrain our covered bond ratings.

Environmental, Social, And Governance

Environmental and social credit factors have no material influence on our credit rating analysis of Apobank's mortgage covered bonds. Governance factors are a moderately negative consideration in our credit analysis. Under the German

Pfandbrief law, 180 days of liquidity needs must be covered by liquid assets. The issuer is not committed to maintain overcollateralization above the legal minimum, which introduces the risk of available credit enhancement decreasing below the level required to maintain the current covered bond ratings. We reflect this in our analysis by reducing the maximum collateral-based uplift above the jurisdiction-supported rating level by one notch. While this does not affect our covered bond ratings, it reduces the number of unused notches available to the covered bond program.

Related Criteria

- Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement, April 4, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
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