S&P Global Ratings

RatingsDirect®

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

Hypothekenpfandbriefe

Primary Credit Analyst:
Natalie Swiderek, Madrid + 34 91 788 7223; natalie.swiderek@spglobal.com

Research Contributor:
Parashar Tendolkar, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

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

Hypothekenpfandbriefe

Ratings Detail

Reference Rating Level	aa
Resolution Regime Uplift	+2
Systemic Importance	Very Strong
Resolution Counterparty Rating	Not applicable
Issuer Credit Rating	A+

+

Jurisdiction-Supported Rating Level	aaa
Assigned Jurisdictional Support Uplift	+2*
Jurisdictional Support Assessment	Very Strong
Legal Framework	Very Strong
Systemic Importance	Very Strong
Sovereign Credit Capacity	Very Strong

+

Maximum Achievable Covered Bond Rating	aaa
Collateral Support Uplift	+3
Overcollateralization Adjustment	-1
Liquidity Adjustment	0
Potential Collateral Based Uplift	+4

=

Covered Bond Rating	AAA/Stable
Rating Constraints	aaa
Counterparty Risk	aaa
Country Risk	aaa

*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.

Strengths

- Granular and well-seasoned cover pool predominantly exposed to German residential mortgages.
- Public commitment to address commingling risk by adding overcollateralization upon loss of the minimum issuer credit rating (ICR).
- Availability of four unused notches, which protects the ratings on the covered bonds if the issuer is downgraded.

Weaknesses

- Absence of commitment for specific overcollateralization level.
- Exposure to assets with higher than average whole-loan 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 outlook on the ratings on Deutsche Apotheker- und Aerztebank eG's (Apobank) mortgage covered bonds reflects the cushion of four unused notches--comprising one notch of jurisdictional support and three notches of collateral support--that would protect the ratings on the covered bonds if we were to lower the long-term ICR on the issuer.

We would lower our ratings on the covered bonds if the available credit enhancement became insufficient to cover 'AAA' credit risk, either because of a reduction by the issuer of the available credit enhancement, or because of deteriorations of the cover pool's credit risk profile.

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. This enables us to rate the covered bonds above 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 the ratings on the covered bonds are not constrained by operational risk.

Under our resolution regime analysis, we determined a reference rating level (RRL) of 'aa'. This is based on (i) Apobank is 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 (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Nov. 27, 2020). 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 rating on the covered bonds is based on their JRL, the available overcollateralization must cover a 'AAA' level of credit stress which we have determined in our collateral support analysis as 5.25%. Apobank's covered bonds exceed this requirement with an available overcollateralization of 10.83%.

Lastly, the ratings on the program and related issuances are not constrained by counterparty, legal, or sovereign risks.

Program Description

Program Overview*	
Jurisdiction	Germany
Rating at closing/year	AAA/2008
Covered bond type	Legislation-enabled
Outstanding covered bonds (€)	7,855,100,000
Redemption profile	Hard bullet
Underlying assets	Residential mortgages, commercial mortgages, and public sector assets
Assigned jurisdictional support uplift	2
Unused notches for jurisdictional support	1
Target credit enhancement (%)	7.03
Credit enhancement commensurate with current rating (%)	5.25
Available credit enhancement (%)	10.83
Assigned collateral support uplift	0
Unused notches for collateral support	3
Total unused notches	4

*Based on data as of March 31, 2021.

Apobank is the largest of among 824 cooperative banks in Germany, with total assets of €59 billion and roughly 481,000 customers as of Dec. 31, 2020. Apobank's 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. It is the market leader in its niche of lending business and payment services for the medical sector in Germany.

Apobank issues mortgage covered bonds under its €15 billion debt issuance program or using standalone documentation. It is an established program with frequent issuances that we have rated since 2008. To date, there are €7.855 billion of covered bonds outstanding (up from €6.816 billion in our last annual review).

The covered bonds constitute senior secured unsubordinated obligations of the issuer 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, 2021. Compared with our previous review, the cover pool has increased further by 16.78%, while the amount of outstanding covered bonds increased by about 15.25% (see "Transaction Update: Deutsche Apotheker- und Aerztebank eG Mortgage Covered Bond Program," published on July 17, 2020). As a result, overcollateralization has increased to 10.83% from 9.38%.

The composition of the cover pool and its credit quality have remained stable.

Apobank provides the bank account for the program. There are no swaps registered in the cover pool.

Deutsche Apotheker- und Aerztebank eG Mortgage Covered Bonds Program Structure

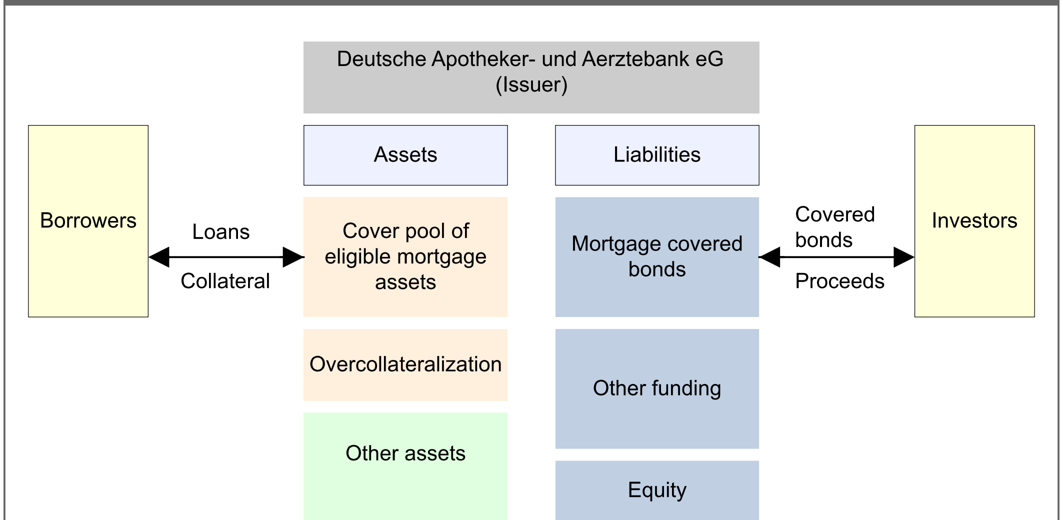

Table 2

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 for the issuance of German covered bonds (Pfandbriefe). We consider that the German covered bond legal framework satisfies the relevant legal aspects of our covered bond criteria, which allows us to assign ratings to the covered bonds that exceed 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 amongst others in a member state of the European Union, the European Economic Area, Switzerland, the U.S., Canada, Japan, Australia, or Singapore. Mortgages can be included in the cover pool only up to the first 60% of the property's mortgage lending value, as estimated in accordance with the Pfandbriefgesetz. The cover pool can also comprise substitute assets that have to meet the eligibility criteria outlined in the German Covered Bond Act.

The German Covered Bond Act requires the issuer to maintain overcollateralization of at least 2% on a net present value basis for the outstanding covered bonds and ensure that 180 days of liquidity needs are covered by liquid assets at all times.

In case of the issuer's insolvency, an independent trustee is responsible for monitoring the cover pool (cover pool monitor) until an independent cover pool administrator is appointed. 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.

Operational and administrative risks

We review operational risk according to our covered bonds criteria.

In our opinion, there is no operational risk from the issuer's management of the cover pool and its loan origination 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.

Loans are originated mostly through Apobank's branches, and to a lesser extent using Apobank's subsidiary ApoFinanz and sales partner teams. Lending is based on a cash flow assessment of all loan applications. Loans are either variable or fixed interest rate pay with a maximum fixed rate period of 15 years. The loans repay either on an annuity or constant repayment rate basis. Interest-only loans are only granted to the extent they are collateralized by additional assets such as life and pension insurance, and investment funds.

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 depend on the magnitude of timing mismatches between the maturities of the cover pool assets and covered bonds. Apobank has to date maintained overcollateralization that exceeds the credit enhancement required for a 'AAA' rating on a voluntary basis.

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 creditworthiness of the covered bonds considering the resolution regime.

In determining the RRL, we consider the following factors:

- Apobank is domiciled in Germany, which is subject to the EU's BRRD;
- Absent 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 liquidation of collateral assets 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

Since our last review, we have updated the analysis of the residential mortgage loans based on the specific adjustments defined for Germany under our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

We analyze the commercial portion of the cover pool 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, 2021. On that date, there were €7.86 billion of covered bonds outstanding backed by a cover pool of €8.71 billion. Available credit enhancement as of March 31, 2021 was 10.83% slightly up from 9.38% as of our 2020 review.

Since our previous review the cover pool's composition has remained fairly stable, comprising exposures to German residential mortgages (76.42% down from 77.04% previously), commercial mortgages (17.72% down from 20.08% previously), and substitute assets (5.86% up from 2.88% previously; see table 3).

All mortgage cover pool assets are in Germany, with the largest region being North Rhine-Westphalia (24.39% of the total mortgage exposure). Within the residential portfolio, none of the exposures exceeds the concentration limits specified for Germany in our global residential loans criteria. For the commercial real estate portfolio, we assess regional exposures relative to the distribution of a country's GDP, or population. In this respect, the commercial cover pool includes regional concentrations of mortgages (relative to the distribution of Germany's GDP) in Berlin and Hamburg. In line with our CRE criteria, we took this into account by increasing our base-case foreclosure frequency assumption for the share of such exposures by 10%.

About 36.59% of residential loans are for buy to let purposes, which we took into account in our analysis by increasing our base foreclosure frequency assumption by 70%. In addition, we have increased the base foreclosure frequency of residential interest only paying loans, by 50%. We understand that a borrower of an interest-only loan pledges to Apobank additional security, such as a life insurance or holdings in an investment fund for example. However, these instruments do not form part of the cover pool. Therefore, in the event of an issuer insolvency and a borrower default, such pledged instruments might not be available to the cover pool administrator on a priority basis for the repayment of the covered bonds.

For the mortgage portfolio, we have 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 as determined by the weighted-average loss severity (WALS). The product of these two variables estimates the required loss protection, in the absence of any additional factors. We assume that the probability of foreclosure 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, 2021, the WAFF and WALS for the combined pool of residential and commercial mortgages were 21.55% and 27.18%, respectively. The combined WAFF has reduced since our previous review. The lower combined WAFF is attributable to the reduction in both the residential and the commercial WAFF whereas the reduction in the residential WAFF is more pronounced. The main drivers behind the lower residential WAFF are a higher residential loan seasoning and the recalibration of the LTV adjustment factors to the base foreclosure frequency under our global residential loans criteria. The reported weighted-average original LTV ratio for the residential loans is 93.23%, and there is a certain share of loans with higher LTV ratios that now attract lower base foreclosure frequency adjustments than previously.

The higher combined WALS is due to an increase in residential WALS driven mainly by the revised foreclosure cost assumption under our global residential loan criteria consisting of a variable and a fixed foreclosure cost component. A further driver is a small increase in the share of loans backed by properties attracting an adjustment for jumbo valuations.

Our WAFF and WALS for the commercial portfolio have reduced compared with our 2020 review, with a WAFF of 31.49% and a WALS of 68.45% (see table 4). The commercial WAFF reduced mainly due to lower whole loan current LTV ratios and a lower share of loans subject to the regional concentration adjustment. The main driver for the lower WALS is a higher share of loans backed by investment properties and thus attracting a lower market value decline assumption of 75% under our commercial real estate criteria compared to operating properties attracting an 85% market value decline assumption.

Our analysis of the commercial mortgages also considers obligor concentration risk by applying a largest obligor test as outlined in our commercial real estate criteria. The result of this test has improved slightly at 3.73% compared with 4.15% at our previous review.

In addition, we have determined a stressed refinancing spread for the mortgage portfolio of 607.71 basis points (bps).

This is based on our "Assessments For Target Asset Spreads According To Our Covered Bonds Criteria," published on Nov. 27, 2020.

The substitute collateral pool represents about 5.86% of total cover pool assets and includes exposures to German regional governments and supranational institutions. Since the sub-pool has low granularity, we assume that all assets with an asset rating below 'AAA' would default and apply recovery assumptions in line with our largest obligor tests for public sector assets. As a result, for the substitute portfolio, our 'AAA' scenario default rate assumption is 32.35%, and the recovery rate is 60.00%. Our stressed refinancing spread assumption is 150 bps.

Table 3

Pool Composition

	March 31, 2021		March 31, 2020	
Asset type	**Value (Mil. €)**	**Percentage of cover pool**	**Value (Mil. €)**	**Percentage of cover pool**
Residential	6,653.0	76.4	5,743.0	77.0
Commercial	1,542.0	17.7	1,497.0	20.1
Substitute	510.0	5.9	215.0	2.9
Total	8,705.0	100.0	7,455.0	100.0

Table 4

Key Credit Metrics

	March 31, 2021	**March 31, 2020**
Average mortgage loan size (€)	106,176	95,734
Weighted average cover pool LTV ratio (%)	55.73	55.65
Weighted average residential loan seasoning (months)*	65.42	57.66
Balance of loans in arrears (%)	0.00	0.00
Buy-to-let loans (% residential mortgage pool)	36.59	37.33
Residential mortgages credit analysis results		
WAFF (%)	19.24	23.73
WALS (%)	17.61	15.19
Commercial mortgages credit analysis results		
WAFF (%)	31.49	32.52
WALS (%)	68.45	71.93
Largest Obligor Test (% of covered bonds)	3.73	4.15
Combined mortgage pool credit analysis results		
WAFF (%)	21.55	25.54
WALS (%)	27.18	26.92
AAA credit risk (%)	5.25	6.87

*Seasoning refers to the elapsed loan term.

Table 5

Mortgage Cover Pool Assets By Loan Size

	--March 31, 2021--	--March 31, 2020--
(€ '000s)	--Percentage of mortgage cover pool--(%)	
< 500	82.27	81.74
500 - 1,000	3.59	3.35
1,000 - 2,500	4.51	4.38
2,500 - 5,000	2.22	2.87
5,000 - 10,000	2.92	3.68
10,000 - 50,000	4.49	3.98
Total	100.00	100.00

Table 6

Loan-To-Value Ratios

	As of March 31, 2021	As of March 31, 2020
WAFF - original LTV/ current LTV ratios (%) -whole loan		
Commercial mortgages - current LTV ratio (%) - whole loan		
0-60	60.86	52.96
60-80	19.36	24.81
80-90	6.11	4.76
90-100	1.98	3.25
Above 100	11.69	14.22
Weighted-average commercial mortgages current LTV ratio (%) - whole loan	81.62	83.23
Residential mortgages - original LTV ratio (%) - whole loan		
0-60	22.01	23.12
60-80	40.22	39.95
80-90	9.36	8.64
90-100	6.23	6.01
Above 100	22.18	22.28
Weighted-average residential mortgages original LTV ratio (%) - whole loan	93.23	93.50
WALS - cover pool current LTV ratios (%)		
Commercial mortgages - current LTV ratio (%)		
0-40	8.35	8.26
40-50	8.62	5.38
50-60	83.03	86.36
Weighted-average commercial mortgages cover pool current LTV ratio (%)	56.39	56.74
Residential mortgages - current LTV ratio (%)		
0-40	11.09	11.27
40-50	7.14	7.23
50-60	81.78	81.5
Weighted-average residential mortgages cover pool current LTV ratio (%)	55.58	55.46

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

Table 7

Residential Mortgages Loan Seasoning Distribution*

	--March 31, 2021--	--March 31, 2020--
Remaining term to maturity (months)	**--Percentage of residential mortgage portfolio--**	
Less than 60	54.1	63.6
60 - 72 months	12.9	9.4
72 - 84 months	8.8	6.8
84 - 96 months	6.9	6.0
96 - 108 months	5.9	3.9
108 - 120 months	2.3	2.7
> 120 months	9.2	7.6
Total	100.0	100.0

*Seasoning refers to the elapsed loan term.

Table 8

Geographic Distribution Of Loan Assets

	--March 31, 2021--	--March 31, 2020--
Residential mortgages	**--Percentage of total residential/commercial cover pool pool--**	
Baden-Wuerttemberg	9.61	9.15
Bavaria	9.79	9.40
Berlin	9.09	8.52
Brandenburg	3.67	3.62
Bremen	0.89	0.82
Hamburg	3.25	3.58
Hesse	8.37	8.22
Lower Saxony	7.77	8.14
Mecklenburg-Vorpommern	2.68	2.72
North Rhine-Westphalia	25.38	26.36
Rhineland-Palatinate	3.71	3.78
Saarland	0.78	0.83
Saxony	7.80	7.73
Saxony-Anhalt	1.78	1.62
Schleswig-Holstein	3.62	3.67
Thuringia	1.82	1.85
Total	100.00	100.00
Commercial mortgages		
Baden-Wuerttemberg	6.20	5.21
Bavaria	11.71	11.38
Berlin	15.87	17.03
Brandenburg	3.39	3.16
Bremen	3.33	3.46
Hamburg	7.74	7.42
Hesse	7.50	5.80

Table 8

Geographic Distribution Of Loan Assets (cont.)		
Lower Saxony	8.20	8.22
Mecklenburg-Vorpommern	1.92	2.05
North Rhine-Westphalia	20.14	21.62
Rhineland-Palatinate	3.30	3.83
Saarland	0.47	0.49
Saxony	4.06	4.09
Saxony-Anhalt	1.82	1.95
Schleswig-Holstein	2.23	2.16
Thuringia	2.14	2.11
Total	100.00	100.00

The results of our credit analysis, including the WAFF, the weighted-average recovery rate (1-WALS), weighted-average time to recovery, and refinancing costs, are the inputs to our cash flow analysis. We stress the cover pool's cash flows, incorporating among other factors, various default timings, interest rate stresses, prepayment rates, and delinquency assumptions, which we run at different points over the weighted-average life of the covered bonds.

Our cash flow analysis determines the target credit enhancement needed to achieve the maximum potential collateral-based uplift, inclusive of 100% refinancing costs, and the credit enhancement required to cover 'AAA' credit risk assuming no asset-liability maturity mismatch. Accordingly, we calculate a target credit enhancement of 7.03%, and an 'AAA' credit risk of 5.25%. Given that the covered bonds' JRL is 'aaa', under our covered bonds criteria, the overcollateralization required to maintain the 'AAA' rating equals 5.25% ('AAA' credit risk). The reduction in both figures is mainly attributable to the reduction in the combined mortgage pool WAFF, and the decrease in the 'AAA' scenario default rate of the substitute assets used in the cash flow analysis. Other contributing factors include a lower residential loan servicing fee assumption under our global residential loan criteria of 35 bps (previously 50 bps). Further, the reduction in the asset-liability maturity mismatch also contributed to a lower target credit enhancement.

As the available credit enhancement (10.83%) exceeds the target credit enhancement (7.03%), the maximum potential collateral-based uplift from the JRL is four notches. We reduce these four notches by one because there is no commitment to maintain overcollateralization at the current rating level. Therefore the maximum collateral-based uplift above the JRL is three notches. None is currently needed to achieve a 'AAA' rating. Consequently, the covered bonds have four unused notches --comprising three unused notches of collateral-based support and one unused notch of jurisdictional support that could protect the ratings on the covered bonds if the ICR is lowered.

Table 9

Collateral Uplift Metrics		
	--March 31, 2021--	**--March 31, 2020--**
Asset WAM (years)	5.29	5.78
Liability WAM (years)	6.55	8.39
Maturity gap (years)	(1.26)	(2.61)
Available credit enhancement (%)	10.83	9.38
Required credit enhancement for first notch of collateral uplift (%)	5.69	6.66
Required credit enhancement for second notch of collateral uplift (%)	6.14	7.86

Table 9

Collateral Uplift Metrics (cont.)	--March 31, 2021--	--March 31, 2020--
Required credit enhancement for third notch of collateral uplift (%)	6.59	8.48
Target credit enhancement for maximum uplift (%)	7.03	9.09
Required credit enhancement for 'AAA' rating (%)	5.25	6.66
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.

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, there is a risk that in case of its insolvency, cash received from the cover pool assets could be commingled with the cash belonging to the bank, 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 that cash received shortly before insolvency and not reinvested in the cover pool assets could be exposed to commingling risk. Apobank's covered bond program contain mitigating factors that are consistent with an 'AAA' rating to address such risk. To address this risk, Apobank has published a statement on its website by which it commits itself to increasing overcollateralization within 60 calendar days upon loss of the minimum ICR (as 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'.

There are no exposures to swap counterparties, as there are no derivatives in the cover pool.

Sovereign risk

We consider sovereign risk 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).

Assets in the cover pool are in Germany, except for a marginal exposure to a multilateral lending institution within the substitute asset sub-pool.

Since our unsolicited long-term sovereign rating on Germany is 'AAA/Stable', country risk does not constrain our ratings on the mortgage covered bonds.

Environmental, social, and governance (ESG) credit factors

Environmental and social credit factors influence the cover pool's credit quality in a broadly similar way as other German covered bond issuers that we rate. We acknowledge the bank's leading role in lending to businesses and facilitating payment services for the medical sector in Germany. Its core customer groups are self-employed doctors, dentists, and pharmacists, but the bank has increasingly diversified in recent years to medical organizations and hospitals, among others. Under the German Pfandbrief law, 180 days of liquidity needs must be covered by liquid assets. The issuer does not commit to a certain level of OC, which introduces the risk that the available credit enhancement could decrease below the level required to maintain the current rating on the covered bonds. 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 ratings on Apobank's covered bonds, it reduces the number of unused notches available to the covered bond program.

Related Criteria

- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- 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, 2019Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Deutsche Apotheker- und Aerztebank eG, May 27, 2021
- Global Covered Bond Insights Q1 2021, April 8, 2021
- Global Covered Bond Characteristics And Rating Summary Q1 2021, April 8, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Nov. 27, 2020
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Nov. 27, 2020
- ESG Industry Report Card: Covered Bonds, Nov. 9, 2020
- Glossary of Covered Bond Terms, April 27, 2018