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

Hypothekenpfandbriefe

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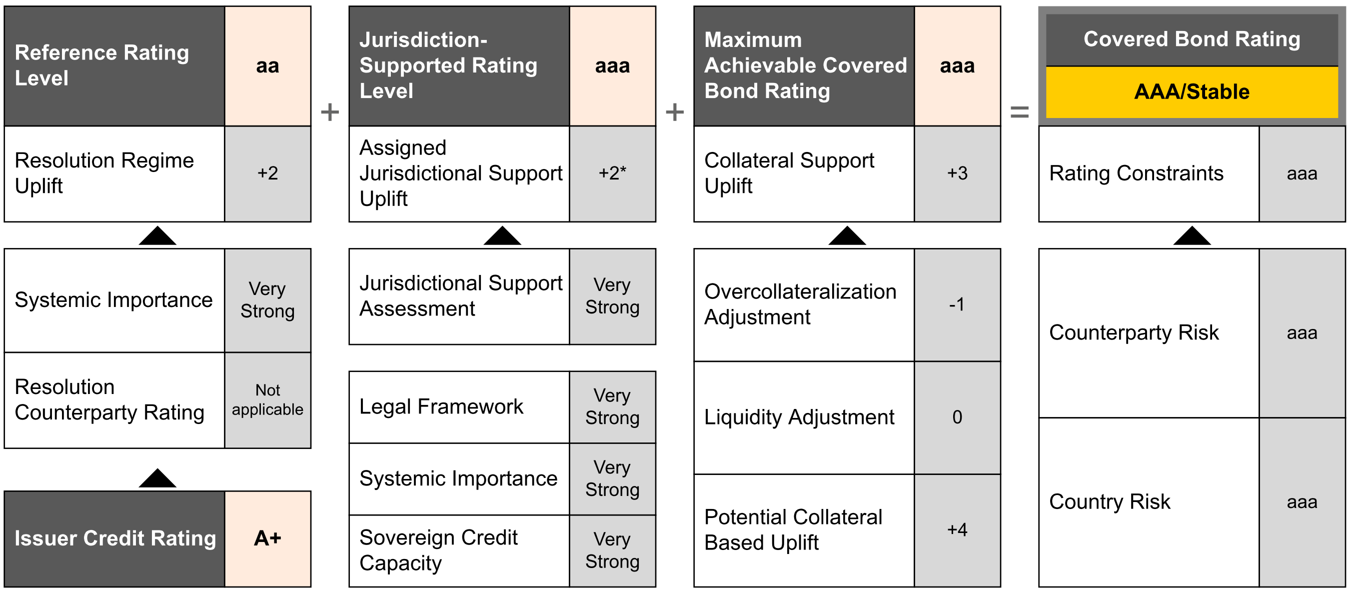
Ratings Detail



*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

- Granular and well-seasoned cover pool of predominantly 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 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 covered bond ratings 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 operational risk does not constrain the ratings on the covered bonds.

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 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 7.34%. Apobank's covered bonds exceed this requirement with an available overcollateralization of 99.10%.

Lastly, counterparty, legal, 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 (€)	4,444,100,000
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 (%)	7.34
Credit enhancement commensurate with current rating (%)	7.34
Available credit enhancement (%)	99.10
Assigned collateral support uplift	0
Unused notches for collateral support	3
Total unused notches	4

*Based on data as of March 31, 2023.

Apobank is the largest of about 781 cooperative banks in Germany, with total assets of €54 billion as of Dec. 31, 2022. 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.

The covered bonds are regulated by the German covered bond framework and are issued under Apobank's €15 billion debt issuance program or using standalone documentation. It is an established program with frequent issuances that we have rated 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, 2023. Since our previous review, the cover pool has decreased by 4%, while the amount of outstanding covered bonds decreased by about 47%. As a result, overcollateralization has increased to 99.10% from 10.30% in our last annual review.

The covered bonds and cover pool assets are euro-denominated. The cover pool assets and covered bonds predominantly pay a fixed interest rate (about 92.8% and 97.6%, respectively).

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

Deutsche Apotheker- und Aerztebank eG Mortgage Covered Bonds Program Structure

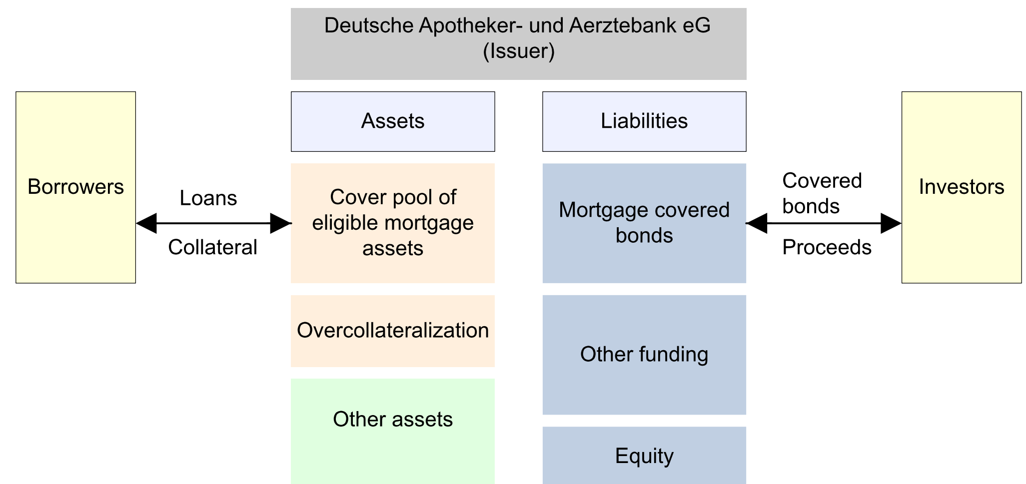


Table 2

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 (Pfandbriefgesetz; "PfandBG") and the relevant secondary legislation provide the legal framework for the issuance of 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 German Pfandbrief law and adjusting it to reflect changes to article 129 of the Capital Requirements Regulation (CRR). The amendments came into force on July 8, 2022.

The main changes to the PfandBG include, among others:

- The introduction of an option for the cover pool administrator to extend the maturities of principal payments of an insolvent issuer's covered bonds by up to one year;
- The introduction of an option for the cover pool administrator to extend maturities of interest and principal within the first month after appointment to end a one-month period without further requirements;
- An additional nominal statutory overcollateralization requirement of 2% for mortgage and public sector covered bonds and 5% for ship and aircraft covered bonds;

- Derivative eligibility amendments;
- Amendments to provisions for the liquidity buffer and the cover pool monitor's reporting duty; and
- The expansion of transparency provisions.

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, 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 by liquid assets.

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

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.

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-rate paying 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 they 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.

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).

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.

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 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).

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, 2023. On that date, a cover pool of €8.49 billion backed €4.44 billion of covered bonds outstanding. Available credit enhancement as of March 31, 2023 was 99.11%, up from 10.30% since our 2022 review.

Since our previous review, the cover pool's composition has remained stable, comprising exposures to German residential mortgages (77.43%; 76.77% previously), commercial mortgages (17.88%; 17.57% previously), and substitute assets (4.69%; see table 3).

All mortgage cover pool assets are in Germany, with the largest region being North Rhine-Westphalia (23.59% 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 by 10%.

About 36.46% 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%. 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. 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 a priority basis for the covered bonds' repayment.

Apobank's residential cover pool sub portfolio includes about 21.6% of loans to medical professionals, who operate their own business as so-called "Freiberufler" or freelancers. Given Germany's mandatory health insurance system, and the particularities of this professional group's remuneration, which is regulated in Germany and is distinct from the remuneration of self-employed borrowers of other professions, we have not applied any adjustment to these borrowers' foreclosure frequency. Furthermore, the German health care sector has remained resilient in the past. The annual income data of medical professionals provided by the issuer underpin this reflecting this borrower group's stable or generally increasing income.

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, 2023, the WAFF and WALS for the combined pool of residential and commercial mortgages were 27.25% and 30.37%, respectively. The combined WAFF has increased since our previous review because the underlying residential and commercial WAFF increased, mainly due to higher original LTV ratios and higher whole loan current LTV ratios, respectively.

The combined WALS decreased slightly due to the lower WALS for the commercial portfolio. The main factors behind the lower WALS in the commercial portfolio are a higher share of loans backed by investment properties, attracting a lower market value decline assumption of 75% under our CRE criteria compared to operating properties attracting an 85% market value decline assumption, and slightly lower current LTV ratios.

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 3.92% compared with 3.70% in our previous review.

In addition, we have determined a stressed refinancing spread of 606.95 basis points (bps)for the mortgage portfolio. This is a function of the nature of the assets and is outlined in our covered bonds criteria.

The cover pool includes 4.7% 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 that these assets are fully available to make payments under the covered bonds.

Table 3

Pool composition

	March 31, 2023		March 31, 2022	
Asset type	**Value (Mil. €)**	**Percentage of cover pool**	**Value (Mil. €)**	**Percentage of cover pool**
Residential	6,851.5	77.4	7,053.0	76.8
Commercial	1,582.1	17.9	1,614.0	17.6
Substitute	415.0	4.7	520.0	5.7
Total	8,848.6	100.0	9,187.0	100.0

Table 4

Key credit metrics

	March 31, 2023	March 31, 2022
Average mortgage loan size (€)	106,346	109,939
Weighted-average cover pool LTV ratio (%)	55.35	55.57
Weighted-average residential loan seasoning (months)*	71.43	67.88
Balance of loans in arrears (%)	0.00	0.00
Buy-to-let loans (% residential mortgage pool)	36.46	36.12
Interest only loans, residential (% residential mortgage pool)	22.02	22.27
Residential mortgages credit analysis results		
WAFF (%)	25.53	18.99
WALS (%)	22.92	22.92
Commercial mortgages credit analysis results		
WAFF (%)	34.73	31.71
WALS (%)	62.64	66.03
Largest obligor test (% of covered bonds)	3.92	3.70
Combined mortgage pool credit analysis results		
WAFF (%)	27.25	21.35
WALS (%)	30.37	30.95
AAA credit risk (%)	7.34	6.01

*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, 2023	March 31, 2022
(€ '000s)	**--Percentage of mortgage cover pool--**	
< 500	81.14	81.77
500 - 1,000	4.04	3.78
1,000 - 2,500	5.23	4.66
2,500 - 5,000	2.33	2.36
5,000 - 10,000	3.20	3.10
10,000 - 50,000	4.06	4.34
Total	100.00	100.00

Table 6

Loan-to-value ratios as reported

	As of March 31, 2023	As of March 31, 2022
WAFF - original LTV/ current LTV ratios (%) - whole loan		
Commercial mortgages - current LTV ratio (%) - whole loan		
0-60	46.52	61.27
60-80	22.1	17.53
80-90	9.02	5.07

Table 6

Loan-to-value ratios as reported (cont.)		
90-100	5.47	4.32
Above 100	16.89	11.81
Weighted-average commercial mortgages current LTV ratio (%) - whole loan	78.74	79.07
Residential mortgages - original LTV ratio (%) - whole loan		
0-60	12.43	21.85
60-80	24.41	39.51
80-90	14.28	9.94
90-100	13.31	6.32
Above 100	35.57	22.38
Weighted-average residential mortgages original LTV ratio (%) - whole loan	94.51	93.51
WALS - cover pool current LTV ratios (%)		
Commercial mortgages - current LTV ratio (%)		
0-40	9.3	9.15
40-50	6.72	5.96
50-60	83.98	84.89
Weighted-average commercial mortgages cover pool current LTV ratio (%)	56.19	56.47
Residential mortgages - current LTV ratio (%)		
0-40	11.94	11.32
40-50	7.92	7.74
50-60	80.14	80.94
Weighted-average residential mortgages cover pool current LTV ratio (%)	55.15	55.38

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
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, 2023	**March 31, 2022**
Residential mortgages	**--Percentage of total residential/commercial cover pool--**	
Baden-Wuerttemberg	9.89	9.91
Bavaria	10.27	10.14
Berlin	8.97	8.88
Brandenburg	3.90	3.84
Bremen	0.91	0.90
Hamburg	3.02	3.16
Hesse	8.13	8.23
Lower Saxony	7.48	7.52
Mecklenburg-Vorpommern	2.55	2.62
North Rhine-Westphalia	25.29	25.20
Rhineland-Palatinate	3.61	3.65
Saarland	0.69	0.73
Saxony	7.77	7.83
Saxony-Anhalt	2.02	1.98
Schleswig-Holstein	3.63	3.57
Thuringia	1.87	1.84
Total	100.00	100.00
Commercial mortgages		
Baden-Wuerttemberg	6.52	6.44
Bavaria	11.47	10.54
Berlin	10.32	12.28
Brandenburg	3.94	3.02
Bremen	2.70	3.47
Hamburg	5.62	6.95
Hesse	12.49	11.58
Lower Saxony	8.13	7.55
Mecklenburg-Vorpommern	2.07	1.95
North Rhine-Westphalia	22.42	22.29
Rhineland-Palatinate	3.86	3.96
Saarland	0.98	0.51
Saxony	4.04	3.83
Saxony-Anhalt	1.27	1.44
Schleswig-Holstein	2.47	2.47
Thuringia	1.71	1.73
Total	100.00	100.00

Our credit analysis results, including the WAFF, the weighted-average recovery rate (1-WALS), the 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 various default patterns, default timings, and interest rate paths. We also stress cash flows under different prepayment rates, and delinquency assumptions, which we run at different points over the covered bonds' weighted-average life.

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 market for mortgages. 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 issuer provides overcollateralization that exceeds the legal minimum requirement, to support the covered bond ratings, on a voluntary basis only. At the same time, the covered bonds benefit from at least 180 days of liquidity coverage. 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 being floored by the 'AAA' credit risk of 7.34%.

Table 9

Collateral uplift metrics

	March 31, 2023	March 31, 2022
Asset WAM (years)	5.34	5.18
Liability WAM (years)	8.73	6.62
Maturity gap (years)	(3.39)	(1.44)
Available credit enhancement (%)	99.11	10.30
Required credit enhancement for 'AAA' rating based on the JRL (%)	7.34	6.01
Required credit enhancement for first notch of collateral uplift (credit risk at 'AAA' and 25% of refinancing costs; %)	7.34	6.44
Required credit enhancement for second notch of collateral uplift (credit risk at 'AAA' and 50% of refinancing costs; %)	7.34	6.87
Required credit enhancement for third notch of collateral uplift (credit risk at 'AAA' and 75% of refinancing costs; %)	7.34	7.30
Target credit enhancement for maximum uplift (credit risk at 'AAA' and 100% of refinancing costs; %)	7.34	7.73
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 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'.

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. 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)

ESG credit indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	G-2	**G-3**	G-4	G-5
- N/A					- N/A					- Risk management, culture, and oversight				

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021. N/A--Not applicable.

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 ratings 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 the covered bonds, it reduces the number of unused notches available to the covered bond program.

Related Criteria

- 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
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