

Transaction Update: Wuestenrot Bausparkasse AG (Mortgage Covered Bond Program)

Hypothekenpfandbriefe

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Ratings Detail

Reference Rating Level	a+	+	Jurisdiction-Supported Rating Level	aa+	+	Maximum Achievable Covered Bond Rating	AAA	=	Covered Bond Rating	
Resolution Regime Uplift	+2		Assigned Jurisdictional Support Uplift	+3		Collateral Support Uplift	+3		AAA/Stable	
Systemic Importance	Very Strong		Jurisdictional Support Assessment	Very Strong		Overcollateralization Adjustment	-1		Rating Constraints	aaa
Resolution Counterparty Rating	N/A		Legal Framework	Very Strong		Liquidity Adjustment	0		Counterparty Risk	aaa
Issuer Credit Rating	A-		Systemic Importance	Very Strong		Potential Collateral Based Uplift	+4		Country Risk	aaa
			Sovereign Credit Capacity	Very Strong						

N/A--Not applicable.

Major Rating Factors

Strengths

- Granular, seasoned and geographically diversified cover pool, comprising exposures to German predominately residential mortgages and multifamily housings.
- Well-matched asset and liability maturity profiles.
- Very strong jurisdictional support and 180 days' liquidity coverage required by law.

Weakness

- Commingling and bank account risk before the issuer's insolvency that is not addressed structurally or by the German legal framework, but is mitigated by the available collateralization.

Outlook

S&P Global Ratings' stable outlook on Germany-based Wuestenrot Bausparkasse AG's (WBSK) mortgage covered bonds ("Hypothekendarlehenbriefe") reflects our view that a two notch lowering of our long-term issuer credit rating (ICR) would not in itself trigger a downgrade of the covered bonds, all else remaining equal. This is because the program benefits from two unused notches of uplift.

We may lower our ratings on the covered bonds if we were to lower the long-term ICR on the issuer by more than two notches or if the overcollateralization commensurate with the rating exceeded the available overcollateralization.

Rationale

We are publishing this transaction update as part of our periodic review of WBSK'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 "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

In our analysis, we assume the issuer's insolvency and look to the resolution regime, the jurisdictional support, and the cover assets to repay the covered bonds.

From our analysis of the legal and regulatory framework for covered bonds in Germany, we believe that the assets in WBSK's cover pool are isolated from the risk of the issuer's bankruptcy or insolvency. This asset isolation allows us to assign a higher rating to the covered bonds than our long-term ICR on WBSK.

Based on our operational risk analysis, which covered a review of WBSK's lending process, collection procedures, and default management procedures, as well as cover pool management and administration, we believe that the ratings on the covered bonds are not constrained by operational risk.

WBSK is domiciled in Germany (unsolicited; AAA/Stable/A-1+), which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). We consider that mortgage covered bonds have a very strong systemic importance to Germany. Therefore, under our covered bonds criteria, we assign two notches of uplift above the long-term ICR on WBSK, leading to a reference rating level (RRL) of 'a+'. This uplift recognizes the increased likelihood that the issuer could still service its covered bonds without reverting to a sale of assets in the cover pool, even after writing down or stopping payments to senior unsecured obligations.

We considered the likelihood for the provision of jurisdictional support. Based on a very strong jurisdictional support assessment for mortgage programs in Germany, we assigned three notches of uplift from the RRL. Therefore, we assess the jurisdiction-supported rating level (JRL) as 'aa+'.

Following the assessment of the RRL and JRL, we analyze the cover pool's credit quality and the availability of liquidity support and committed overcollateralization to determine the maximum collateral uplift above the JRL. Our credit and cash flow analysis is based on data as of Oct. 1, 2021. The portfolio comprises German residential (74.37%)

and non-residential mortgages (16.75%), and substitute assets (8.88%). Based on our cash flow analysis, the available credit enhancement (27.87%) exceeds the required credit enhancement for a 'AAA' rating (8.34%).

The covered bonds are eligible for three notches of collateral based uplift, given that the available credit enhancement covers the target credit enhancement, the covered bonds benefit from at least 180 days of liquidity, but there is no overcollateralization commitment commensurate with the rating.

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

Program Description

Table 1

Program Overview*	
Jurisdiction	Germany
Covered bond type	Legislation-enabled
Outstanding covered bonds (Bil. €)	2.2
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	3
Unused notches for jurisdictional support	0
Available credit enhancement (%)	27.87
Target credit enhancement (%)	9.14
Credit enhancement required for current rating (%)	8.34
Assigned collateral support uplift	1
Unused notches for collateral support	2
Total unused notches	2

*Based on data as of Oct. 1, 2021.

WBSK is a German "Bausparkasse", residential mortgage loan provider, and covered bond issuer. It is a subsidiary of Germany-based Wuestenrot & Wuerttembergische AG.

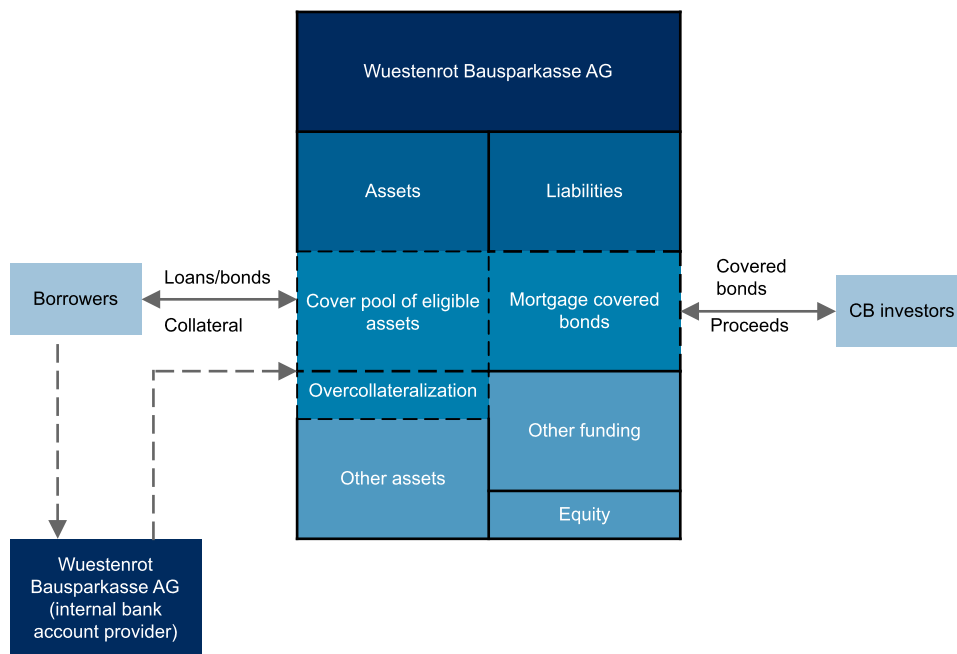
The covered bonds are regulated by the German covered bond framework and are issued under WBSK's debt issuance program, or stand-alone documentation. The cover pool assets are segregated from the issuer's remaining assets through entry in a cover pool register. Investors in covered bonds have recourse to WBSK and to a portfolio of mortgage and substitute assets assigned to the cover pool as collateral.

The covered bonds and cover pool assets are euro-denominated and predominantly fixed rate paying. There are no derivatives in the cover pool. WBSK is the issuer and bank account provider (see chart below).

Table 2

Program Participants			
Role	Name	Rating	Rating dependency
Issuer	Wuestenrot Bausparkasse AG	A-/Stable/A-1	Yes
Account bank	Wuestenrot Bausparkasse AG	A-/Stable/A-1	No

Program Structure



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Rating Analysis

Legal and regulatory risks

In our analysis of legal risk, we considered the guidelines in "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017, as well as our covered bonds rating framework criteria.

The German Covered Bond Act (Pfandbriefgesetz; "PfandBG") and the relevant secondary legislation provide the legal framework for the issuance of German covered bonds (Pfandbriefe). Under the framework, banks can issue public-sector, mortgage, ship, and aircraft covered bonds.

We consider that the German covered bond legal framework satisfies the relevant legal aspects of our covered bonds criteria. This enables us to assign ratings to the covered bonds that exceed the long-term ICR on WBSK.

Covered bond investors have a preferential claim to a cover pool of assets. For mortgage covered bonds, this may comprise exposures to properties and rights equivalent to real property located in a member state of the European Union, the European Economic Area, Switzerland, the U.S., Canada, or Japan. The issuer may use mortgages as cover pool assets up to the first 60% of the property's value only, as estimated in accordance with the PfandBG. The cover pool may also include exposures to public-sector entities from the same geographic area as stipulated for the mortgage

assets. Additionally, the cover pool can comprise eligible substitute assets.

According to the PfandBG, the issuer must maintain overcollateralization of at least 2% on a net present value basis for the outstanding covered bonds, and ensure 180 days of liquidity needs are covered by liquid assets at all times.

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

We have analyzed the risk that, if the issuer becomes insolvent, 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 issuing bank's insolvency, but that cash received shortly before insolvency and not reinvested in the cover pool assets could be exposed to commingling risk. We address this risk in our counterparty section.

On April 15, 2021, the German Bundestag passed the Covered Bonds Directive Implementation Act ("CBDUmsetzungsgesetz" [CBDUmsG]), and on July 8, 2021, it transposed the EU's Covered Bonds Directive into the covered bond law (PfandBG).

The main changes to the PfandBG include, among others:

- The introduction of an option for the cover pool administrator to extend the maturities of an insolvent issuer's covered bonds by up to one year;
- 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.

Article 1 of the CBDUmsG, which includes the option to extend the maturities of covered bonds, entered into force on July 1, 2021. Article 2, including provisions on implementing the EU's Covered Bonds Directive, will enter into force on July 8, 2022.

The covered bonds maturity extension is subject to the conditions set out in the CBDUmsG, which include avoiding imminent insolvency of the ringfenced pfandbriefe, confirming it is not overindebted, and having no reason to believe it will not be solvent when the extension period ends.

The CBDUmsG introduces the extension option to both new and existing covered bonds. Our rating analysis considers the coverage of refinancing cost, which is the additional credit enhancement expected to be required to be able to refinance the cover pool in a stressed environment (see "Related Criteria"). Our analysis of German covered bonds thus considers the extended maturity date of the covered bonds when estimating the refinancing cost of a program. 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

We review operational risk according to our covered bonds rating framework criteria. We consider the procedures used by the issuer in the origination and monitoring of the cover pool assets. We have conducted a review of origination, underwriting, collection, risk monitoring, and default management procedures for WBSK's cover pool assets. We also reviewed the cover pool's management and administration. In our view, WBSK has prudent underwriting and loan management policies. Therefore, we have not applied any adjustments to our credit or cash flow assumptions as a result of our assessment of operational risk.

WBSK maintains, voluntarily, overcollateralization levels that exceed the legal minimum requirement, in order to support the current ratings on the covered bonds. Covered bonds are a key funding tool for WBSK, and we believe that the issuer will continue to manage overcollateralization at the current rating level.

Furthermore, in our view potential backup servicers would be available if the issuer were to become unable to manage the program, considering that Germany is an established covered bond market and the underlying mortgages do not comprise product features that would materially limit the range of available servicers.

Resolution regime analysis

As part of our covered bonds criteria, our analysis considers the resolution regime in place in Germany to determine the RRL. The RRL on WBSK, which is the starting point for any further ratings uplift in our analysis, is 'a+'. We consider the following factors:

- WBSK is domiciled in Germany, which is subject to the EU's BRRD.
- Absent an assigned resolution counterparty rating for WBSK, we add two notches of uplift to the ICR because we assess the systemic importance for German mortgage covered bonds as very strong.

Jurisdictional support analysis

We conduct a jurisdictional support analysis to assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative. This is reflected in our JRL, which is our assessment of the creditworthiness of a covered bond program considering jurisdictional support, but before giving benefit to a covered bond program's ability to access other refinancing sources.

Our assessment of the expected jurisdictional support for German mortgage covered bond programs is very strong (see "Covered Bonds Criteria," published on Dec. 9, 2014). This means that WBSK's covered bonds can receive up to three notches of jurisdictional support uplift from the RRL. The covered bonds make use of these notches to achieve a 'aa+' JRL.

We also consider that the issuer's cover pool continues to comply with legal and regulatory minimum standards in Germany and that there are no limitations from the foreign currency rating on the German sovereign.

Collateral support analysis

We based our credit analysis for the residential pool on loan-by-loan data, and for the commercial pool on stratified data both as of Oct. 1, 2021. The cover pool comprises euro-denominated German residential (74.37%) and commercial mortgages (16.75%), predominantly multifamily housings, and substitute assets (8.88%) (see table 3).

The mortgage cover pool is regionally diversified, granular, and well-seasoned with low loan-to-value (LTV) ratios compared to other German covered bond programs we rate.

Since our previous review, the cover pool balance increased proportionally less than the balance of outstanding covered leading to a reduction in the credit enhancement to 27.87% from 44.46%. We observed an increase in LTV ratios, a slight reduction in loan seasoning, and an increase in interest only loans.

We have analyzed 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 criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

We assess the credit quality of the mortgage cover pool by estimating the credit risk associated with each loan in the pool. We then calculate the aggregate risk to assess the cover pool's overall credit quality. To quantify the potential losses associated with the entire pool, we weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance. The product of the weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged.

At a 'AAA' level of stress, for the residential pool the WAFF is 11.55% (7.52% in 2020) and the WALS is 6.30% (3.38% in 2020). For the commercial pool the WAFF is 26.54% (24.97% in 2020) and the WALS is 40.09% (38.28% in 2020).

The residential WAFF has increased mainly due to higher original LTV ratios, higher whole-loan current LTV ratios, lower loan seasoning, and an increase in reported interest-only loans. The negative effects of these factors on the residential WAFF were partially offset by a lower share of loans to self-employed borrowers.

The residential WALS has increased mainly due to an increase in current LTV ratios and the cover pool's higher share of loans backed by properties exceeding the jumbo valuation limit of €500,000.

The commercial WAFF has increased, mainly due to higher whole loan current LTV ratios and an increase in the commercial pool's regional concentration in Berlin (23% of the commercial pool). We assess regional exposures relative to the distribution of a country's GDP, or population. In this respect, we took regional concentration into account by increasing our base-case foreclosure frequency assumption for the share of exposures in Berlin by 10%. The commercial WALS has increased due to an increase in the cover pool's current LTV ratios.

The issuer actively manages substitute cover pool assets, which leads to some variation in the portfolio's size and our default risk assessment over time. In line with our criteria "Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities," published on Dec. 9, 2014, we consider that the substitute portfolio exhibits low granularity. We therefore assume that

in a 'AAA' stress scenario all substitute assets rated lower than 'AAA' default. We currently assess the asset default risk as 70% and calculate a recovery rate of 25%, which is applied immediately in our cash flow analysis.

The results of our credit analysis, including default and recovery rates, represent inputs to our cash flow analysis. Our weighted-average recovery period assumption in our cash flow modeling for the combined mortgage pool is 27.6 months.

We stress the cover pool's cash flows, incorporating among other factors, various default patterns, default timings, various interest rate stresses, prepayment rates, and delinquencies assumptions, which we run at different points over the weighted-average life of the covered bonds. We simulate a stressed sale of assets whenever a liquidity gap occurs in our analysis. The weighted-average haircut applied for the assets in the cover pool including mortgages and substitute assets is 509.4 basis points.

In addition, in our analysis, we consider the risk that cash collections received from the cover pool assets shortly before the issuer's insolvency, and not reinvested in cover pool assets, could be lost through commingling with the issuer's cash (see "Counterparty risk").

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 9.14% (10.57% in 2020), and a 'AAA' credit risk of 7.53% (7.82% in 2020). Both figures have improved compared with our 2020 review.

The increase in the WAFF and WALs on the mortgages assets negatively affects the target credit enhancement and 'AAA' credit risk. These negative effects were partially offset by a higher share of substitute assets and a lower scenario default ratio on them, as well as an increase in excess spread. Furthermore, as for the target credit enhancement, a 12 months covered bonds maturity extension has offset the above negative effects. This is due to a reduction in bond redemptions in the first two years following October 2021.

The covered bonds' available credit enhancement of 27.87% exceeds the target credit enhancement of 9.14%. As a result, the maximum potential collateral-based uplift from the JRL is four notches. We then assess whether reductions to these four notches are required by reviewing the coverage of six months of liquidity and the level of overcollateralization commitment. Given that the covered bonds benefit from at least 180 days of liquidity needs coverage at all times, we do not apply any reduction to reflect liquidity risk. However, in order to support the covered bond ratings, the issuer provides overcollateralization in excess of the legal minimum, on a voluntary basis only. Consequently, we reduce the maximum potential collateral-based uplift by one notch.

This results in a collateral-based uplift of three notches above the JRL of 'aa+', of which one notch is used to achieve a 'AAA' rating with a required credit enhancement of 8.34%. The covered bond program therefore benefits from two unused notches of uplift, which provides a cushion to the 'AAA' rating in the event of an issuer downgrade by up to two notches, all else equal.

Table 3

Cover Pool Composition					
Asset type	As of Oct. 1, 2021		As of Oct. 1, 2020		
	Value (€)	Percentage of cover pool (%)	Value (€)	Percentage of cover pool (%)	
Residential mortgages	2,093,713,316	74.37	1,987,298,368	78.54	
Commercial mortgages	471,500,179	16.75	382,981,599	15.14	
Substitute/public finance assets	250,000,000	8.88	160,000,000	6.32	
Total	2,815,213,495	100	2,530,279,967	100	

Table 4

Key Credit Metrics		
	As of Oct. 1, 2021	As of Oct. 1, 2020
Residential mortgages		
Average loan size in the cover pool (€)	65,267	59,109
Weighted-average effective LTV ratio (%)	59.68*	55.64*
Weighted-average original LTV ratio (%)	61.73	59.19
Weighted-average current LTV ratio (%)	35.85	32.22
Weighted-average residential loan seasoning (months)§	115.89	133.73
Balance of loans in arrears (%)	0.15	0.27
WAFF (%)	11.55	7.52
WALS (%)	6.30	3.38
Commercial mortgages		
Weighted-average whole LTV ratio (%)	52.42	47.93
Weighted-average current LTV ratio (%)	42.83	41.54
WAFF (%)	26.54	24.97
WALS (%)	40.09	38.28
Credit analysis results for combined pool		
WAFF (%)	14.31	10.34
WALS (%)	12.51	9.02
'AAA' credit risk (%)	7.53	7.82

*Calculated weighting 80% of the OLV and 20% of the CLTV. LTVs are based on the full loan balances secured on the property, including loan parts outside the asset pool and prior- and second-ranking balances if any. §Seasoning refers to the elapsed loan term. LTV--Loan-to-value. Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Table 5

Loan-To-Value Ratios		
	As of Oct. 1, 2021	As of Oct. 1, 2020
WAFF-effective LTV/whole LTV ratios (%)		
Residential mortgages - effective LTV ratios (%)		
0-40	22.08	24.38
40-50	13.65	15.57
50-60	15.82	18.25
60-70	11.83	12.65
70-80	13.02	15.69

Table 5

Loan-To-Value Ratios (cont.)		
80-90	14.11	11.23
>90	9.5	2.24
Weighted-average effective LTV ratio	59.68	55.64
Commercial mortgages - whole LTV ratios (%)		
0-40	30.13	36.69
40-50	17.11	18.03
50-60	24.22	19.33
60-70	8.36	8.79
70-80	7.19	10.14
80-90	5.24	4.05
>90	7.76	2.97
Weighted-average whole loan LTV ratio	52.42	47.93
WALS-current LTV ratios (%)		
Residential mortgages - current LTV ratios after HPI, based on cover pool balance (%)		
0-40	61.26	71.98
40-50	12.20	13.31
50-60	26.53	14.71
60-70	0	0
Weighted-average current LTV ratio	35.85	32.22
Commercial mortgages - current LTV ratios, based on cover pool balance (%)		
0-40	38.57	41.19
40-50	17.69	19.63
50-60	43.75	39.18
60-70	0	0
Weighted-average current LTV ratio	42.83	41.54

Table 6

Residential Loan Seasoning Distribution*		
	As of Oct. 1, 2021	As of Oct. 1, 2020
	Percentage of current residential mortgage loan balance	
<=5 years	39.05	23.41
>5 and <=6 years	3.33	2.15
>6 and <=7 years	1.80	3.68
>7 and <=8 years	3.04	6.19
>8 and <=9 years	4.79	6.49
>9 and <=10 years	4.36	6.40
>10 years	43.47	51.41
Weighted-average residential loan seasoning (months)*	115.89	133.73

*Seasoning refers to the elapsed loan term.

Table 7

Geographic Distribution Of Loan Assets		
	Percentage of cover pool (%)	
Residential mortgages	As of Oct. 1, 2021	As of Oct. 1, 2020
Baden-Wuerttemberg	21.70	20.00
Bavaria	20.97	19.18
Berlin	3.12	3.23
Brandenburg	4.68	5.07
Bremen	0.42	0.39
Hamburg	1.29	1.15
Hesse	9.76	9.13
Lower Saxony	7.59	7.93
Mecklenburg-Vorpommern	1.85	2.07
North Rhine-Westphalia	12.00	13.43
Rhineland-Palatinate	4.81	5.11
Saarland	1.07	1.16
Saxony	2.97	3.66
Saxony-Anhalt	2.27	2.68
Schleswig-Holstein	3.15	3.12
Thuringia	2.35	2.71
Total	100	100
Commercial mortgages		
Baden-Wuerttemberg	12.82	12.89
Bavaria	17.73	14.18
Berlin	23.00	19.92
Brandenburg	3.25	3.99
Bremen	0.42	0.15
Hamburg	2.3	2.61
Hesse	9.72	10.69
Lower Saxony	3.92	4.19
Mecklenburg-Vorpommern	2.34	2.88
North Rhine-Westphalia	11.75	13.49
Rhineland-Palatinate	2.32	2.63
Saarland	0.85	1.09
Saxony	3.76	4.76
Saxony-Anhalt	1.66	1.99
Schleswig-Holstein	1.87	2.04
Thuringia	2.28	2.50
Total	100	100

Table 8

Collateral Uplift Metrics		
	As of Oct. 1, 2021	As of Oct. 1, 2020
Asset WAM (years)	5.24	4.57
Liability WAM (years)	5.85*	5.20
Maturity gap (years)	(0.61)	(0.63)
Available credit enhancement (%)	27.87	44.46
'AAA' credit risk (%)	7.53	7.82
Required credit enhancement for first notch of collateral uplift (%)	7.93	8.51
Required credit enhancement for second notch of collateral uplift (%)§	8.34	9.2
Required credit enhancement for third notch of collateral uplift (%)	8.74	9.88
Target credit enhancement for maximum collateral uplift (%)	9.14	10.57
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

*Including a 12 months maturity date extension on all covered bonds. §Credit enhancement required for current rating. WAM--Weighted-average maturity.

Counterparty risk

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

There are no derivatives registered in the cover pool. WBSK acts as bank account provider to the covered bond program. We have identified bank account and commingling risk as relevant counterparty risks for the program.

Our legal analysis of the German Covered Bond Act has concluded that cover pool collections received post-issuer insolvency are not at risk of being commingled with the issuer's insolvency estate but could potentially be delayed. We believe that this risk is mitigated by the fact that the German Covered Bond Act requires the issuer to maintain liquid assets to cover 180 days of liquidity needs at all times.

However, cover pool collections received prior to the issuer's insolvency may be lost (i.e., commingled with the bank's general account balances), if they have not been reinvested prior to the issuer's insolvency. In the absence of structural mitigants, we took commingling and bank account risk into account when determining the required credit enhancement at the 'AAA' rating level by assuming that one month of collections equivalent to 1.97% of the cover pool are lost. The available overcollateralization covers the required credit enhancement of 8.34% at the 'AAA' rating level, inclusive of such risks.

As a result, counterparty risk does not constrain the rating on the covered bonds.

Country risk

We consider country risk under our structured finance sovereign risk criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumption," published on Jan. 30, 2019).

The cover pool includes exposures towards German residential and commercial mortgages and substitute assets comprising sovereign exposures to France, Spain, Finland, and Ireland.

Based on our unsolicited long-term sovereign rating on Germany (AAA/Stable/A-1+), sovereign risk does not constrain the covered bond ratings. Additionally, other sovereign exposures are not significant enough to cap the covered bond ratings under our sovereign risk criteria.

Environmental, social, and governance (ESG) factors

We have not observed material changes in the exposure to ESG credit factors in the covered bond program since we published "ESG Industry Report Card: Covered Bonds," on Nov. 9, 2020.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
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- Covered Bonds Outlook 2022: Performance Stable As Support Schemes Wind Down, Dec. 9, 2021
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- Glossary Of Covered Bond Terms, April 27, 2018

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