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Evangelische Bank eG Mortgage Covered Bond Program Assigned 'AAA' Rating; Outlook Stable

January 9, 2024

Overview

- We assigned our 'AAA' ratings to Evangelische Bank eG's mortgage covered bond program and related Pfandbriefe issuances.
- The stable outlook on the ratings reflects the cushion of three unused notches of collateral-based support and one notch of jurisdictional support that would protect the ratings on the covered bonds in the event of a downgrade of the rating on the issuer, all else being equal.

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FRANKFURT (S&P Global Ratings) Jan. 9, 2024--S&P Global Ratings assigned its 'AAA' credit ratings to Evangelische Bank eG's (EB) mortgage covered bond program and related Pfandbriefe issuances. The outlook on the ratings is stable.

Our covered bond ratings process follows the methodology and assumptions outlined in our covered bonds criteria and our "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015. Accordingly, we performed a legal and regulatory review, an operational risk review, a resolution regime analysis, a jurisdictional support analysis, a collateral support analysis, and a counterparty and sovereign risk analysis.

From our analysis of the German legal and regulatory framework, we consider that it effectively isolates the cover pool assets from the issuer's insolvency estate for the benefit of the covered bondholders. The protection of the cover pool assets and the cover pool's continued management allow us to elevate the rating on the covered bonds above EB's creditworthiness.

Based on our operational risk analysis, which covered a review of EB'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.

EB is domiciled in Germany, which is subject to the EU's Bank Recovery and Resolution Directive. We consider that mortgage covered bonds have a very strong systemic importance to Germany. These factors increase the likelihood that EB 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. We have therefore assigned two notches of uplift above our assessment of EB's creditworthiness to determine the covered bonds' reference rating level (RRL).

We considered the likelihood for the provision of jurisdictional support. Based on a very strong jurisdictional support assessment for mortgage covered bonds in Germany, we assigned three notches of uplift from the RRL to determine the covered bonds' jurisdiction-supported rating level (JRL).

We reviewed the cover pool information provided as of Aug. 31, 2023. The €7 million of outstanding covered bonds are secured by a €54.6 million cover pool comprising German commercial mortgage loans and a small portion of substitute collateral.

We assessed the commercial mortgage cover pool's credit quality by estimating the credit risk associated with each loan in the pool. Due to the low number of borrowers, we base this loan-level analysis on a rating to principles approach, in line with the specific adjustments under our commercial real estate (CRE) in European covered bonds criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

In our opinion, the use of the existing loss severity assumptions outlined in our CRE criteria represents a sufficiently robust approach to analyze the cover pool. Finally, in our view the underlying commercial mortgage loans exhibit characteristics similar to those generally observed in other rated covered bonds secured by CRE assets.

The current mortgage loan portfolio is small in size, comprising less than 150 nonrelated mortgage loans. This implies that this portfolio is not necessarily in scope of our CRE criteria, and would likely require additional analytical considerations. Therefore, we have followed these criteria to analyze this portion of the portfolio because we believe this subportfolio's higher concentration risk is already adequately captured through the application of a small pool adjustment factor to the default frequency of the commercial portfolio, as described in these criteria. Given the pool's current composition, this ultimately results in a default frequency assumption of 100%.

Based on our collateral support analysis, the available overcollateralization of 677.11% exceeds the target credit enhancement of 328.73%, which is commensurate with a potential four-notch uplift above the JRL. From these four notches, we deduct one due to uncommitted overcollateralization. We do not deduct any notches for liquidity coverage, which we consider to be covered by the soft-bullet nature of the covered bonds and the legal requirement to include liquid collateral in the cover pool. Consequently, the assigned collateral support uplift is three notches above the JRL, permitting the covered bonds to achieve a 'AAA' rating.

There are no rating constraints to the 'AAA' rating relating to operational, legal, counterparty, or sovereign risks.

We have based our analysis on the criteria articles referenced in the "Related Criteria" section.

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
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015

- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Germany, Sept. 25, 2023
- Global Covered Bond Insights Q1 2024, Dec. 15, 2023
- Update: Cooperative Banking Sector Germany, May 8, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Covered Bond Monitor: Technical Note, Sept. 6, 2019
- Glossary Of Covered Bond Terms, April 27, 2018