Sparkasse Westmuensterland

Mortgage Pfandbriefe

New Issue Report

Ratings/Outlook

Mortgage Covered Bonds	AA+

Rating Rationale

IDR/Outlook	A+/Stable
IDR uplift	2 notches
Payment continuity uplift	4 notches
Tested rating on a PD basis	AA
Recovery uplift	1 notch
Covered bonds rating	AA+
OC Fitch considers in analysis	78.1%
AA+ breakeven OC (nominal)	0%

Key Data

	Mar 18
Asset type	Residential mortgages
Maturity profile of bonds	Hard bullet
Cover assets (EURm)	697.2
Covered bonds (EURm)	391.5
Nominal OC (%)	78.1
WAL of assets (years)	12.6
WAL of liabilities (years)	5.5

PCU Reduction

Asset segregation	No
Alternative manager	No

Rating Constraint

None

Related Research

Sparkassen-Finanzgruppe (Sparkassen) (February 2018)

Fitch 2018 Outlook: Covered Bonds (December 2017)

Covered Bonds Surveillance Snapshot (April 2018)

'B' Portfolio Loss Rates for Covered Bonds (September 2017)

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Key Rating Drivers

'AA+' Rating Directly Linked to IDR: Sparkasse Westmuensterland's (SkWML) mortgage Pfandbrief rating is based on the savings bank's Long-Term Issuer Default Rating (IDR) of 'A+', an IDR uplift of two notches and a recovery uplift of one notch. The legal minimum overcollateralisation (OC) is the breakeven OC for the rating. The agency further assigned a payment continuity uplift (PCU) of four notches.

The Stable Outlook mirrors that on SkWML's Long-Term IDR. The rating of the covered bonds is directly linked to the issuer's rating, and changes to the IDR would be reflected on the covered bond rating.

Limited Data Provision: Fitch Ratings limits the recovery uplift to one notch as the data provided by SkWML do not enable the agency to perform a full analysis. Should the issuer deliver data allowing for a full analysis, Fitch would be able to assign an additional notch of recovery uplift and to test for timely payment, which would lessen the linkage between issuer's IDR and its covered bond rating.

Two-Notch IDR Uplift: The IDR uplift reflects that the issuer's Long-Term IDR is based on its participation in a mutual support scheme and that Pfandbriefe are exempt from bail-in in a resolution scenario. The uplift is also based on our assessment that resolution of the issuer would not result in the direct enforcement of recourse against the cover pool and the low risk of undercollateralisation at the point of resolution.

One-Notch Recovery Uplift: The recovery uplift was assigned to SkWML's covered bonds as the agency believes the covered bonds will benefit at least from good recoveries should they default. Despite limitations, the data were sufficient to allow Fitch to conduct a broad asset analysis and estimate recovery prospects.

PCU of Four Notches: The PCU reflects the mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for the next 180 days, which provides effective protection for interest and principal payments for standard German mortgage Pfandbriefe.

Programme Highlights

High Regional Concentration: SkWML's operations are almost exclusively concentrated in the districts of Borken and Coesfeld, which together form the Westmuensterland region. German savings banks focus on providing banking products within a clearly defined area.

Granular Residential Mortgage Portfolio: At end-March 2018, the cover pool comprised 14,199 German residential mortgage loans with an average loan size of EUR47,520. The share of owner-occupied properties as well as of single family houses is above average, with 86.0% and 81.7% respectively, reflecting the characteristics of Westmuensterland's property market. The weighted average loan to mortgage lending value (LTMLV) of 50.7% allows for a large buffer to real-estate price declines before losses would materialise.

Other Risks Limited: All assets and Pfandbriefe are denominated in euros. There is no initial open interest rate position, with 100% fixed Pfandbriefe and 100% fixed mortgage assets.

Peer Comparison

The table below compares the key rating drivers for SkWML with those of the three other German Pfandbrief programmes rated by Fitch and issued by savings banks.

Fitch assigns an IDR uplift of up to two notches to mortgage covered bond programmes in Germany as the agency understands that Germany has adopted an advanced bank resolution regime from which fully collateralised covered bonds and secured debt are exempt. The two-notch IDR uplift reflects that the saving bank's Long-Term IDRs are based on their participation in a mutual support scheme.

All German mortgage covered bond programmes receive a PCU of four notches given the mandatory inclusion of liquid assets in the cover pools matching the maximum negative accumulated balance of cash flows for the next 180 days laid down in the Pfandbrief Act.

The savings banks' IDR of 'A+' together with an IDR uplift of two notches enables the programmes to reach the 'AAA' rating based on recoveries. Timely payment is not tested. Sparkasse Hannover's (SkH) and Sparkasse Pforzheim Calw's (SkPfCw) 'AAA' breakeven OC's are driven by the credit losses expected in a 'AAA' rating scenario of 15.2% and 9.6%, respectively. The difference in loss expectation reflects the different share of commercial cover assets. The recovery uplift of Stadtsparkasse Muenchen's (SSkM) and SkWML's programmes are capped at one notch, ultimately leading to a 'AA+' rating, as the data information do not enable the agency to perform a full asset analysis.

See the *Covered Bond Surveillance Snapshot (April 2018)* and related *Excel file*, for a detailed comparison of rating drivers across Fitch-rated covered bond programmes.

Peer Comparison: Key Rating Drivers

	SkWML	SSkM	SkH	SkPfCw
Covered bond rating	AA+/Stable	AA+/Stable	AAA/Stable	AAA/Stable
IDR/Outlook	A+/Stable	A+/Stable	A+/Stable	A+/Stable
IDR uplift	2	2	2	2
PCU	4	4	4	4
Recovery uplift	1	1	2	2
Residential cover assets (%)	100	71	56	83
Commercial cover assets (%)	0	29	44	17
'B' portfolio loss rate (%)	n.a.	n.a.	0.1	0.0
Breakeven OC (%)	0.0	0.0	15.0	9.5
Breakeven OC components				
Credit loss (%)	n.a.	n.a.	15.2	9.6
Cash flow valuation (%)	n.a.	n.a.	-	-
Asset disposal loss (%)	n.a.	n.a.	-	-

Source: Fitch, data as at June 2018

Country Risk Impact

There is no country risk impact on this programme as SkWML's mortgage covered bond rating of 'AA+' is below Germany's Long-Term Local-Currency IDR of 'AAA'. Please see *Structured Finance and Covered Bonds Country Risk Rating Criteria.*

Sensitivity Analysis

There is a direct link between the rating of the covered bonds and SkWML's Long-Term IDR given Fitch's application of the limited rating uplift approach. Any changes to the IDR would be reflected on the covered bonds' rating.

Fitch would be able to test for timely payment should the issuer deliver data allowing for a full analysis. In that scenario, a cushion against downgrade following an issuer downgrade would be provided.

Related Criteria

Covered Bonds Rating Criteria (March 2018)

Bank Rating Criteria (March 2018)

EMEA RMBS Rating Criteria (May 2018)

Structured Finance and Covered Bonds Country Risk Rating Criteria (September 2017)

Westmuensterland

The Issuer

SkWML's IDR has been assigned in line with the Sparkassen-Finanzgruppe's (SFG) IDR. SFG includes 385 savings banks as of May 2018. In December 2017, Fitch has assigned a group rating to 337 of these. The savings banks form a homogenous and relatively cohesive group and are organised into 12 regional savings banks associations. At the national level, Deutscher Sparkassen- und Giroverband, the umbrella organisation of SFG, represents the savings banks and the broader SFG including the Landesbanken. Each savings bank focuses on providing standard banking products within a clearly defined area.

SkWML is the 29th-largest savings bank in Germany with EUR7.6 billion total assets as of end-2017. This includes a mortgage book of EUR2.5 billion consisting of both residential and commercial loans. SkWML is one of the two leading financial institutions in Westmuensterland and offers a full range of financial service products to private and commercial clients.

The savings bank holds a Pfandbrief licence for the issuance of mortgage Pfandbriefe. The first mortgage Pfandbrief was issued in 2008. The issuer focuses on private placements with typical notional values of about EUR10 million. As of end-May 2018, no publicly tradeable mortgage Pfandbriefe are outstanding.

Fitch's most recent reports on SFG's issuer ratings are a *Full Rating Report* (February 2018) and *Ratings Navigator* (January 2018).

IDR Uplift: Two Notches

The IDR uplift reflects that collateralised covered bonds in Germany are exempt from bail-in in a resolution scenario, Fitch deems the risk of under-collateralisation to be sufficiently low. Resolution of SkWML, should this occur, is not expected to lead to a direct enforcement of recourse to the cover pool. SkWML's IDR of 'A+' is based on its participation in a mutual support scheme.

PCU: Four Notches

The PCU is based on the principal and interest payment protection mechanism, notably the inclusion of highly liquid assets covering potential cash shortfalls in the next 180 days. Fitch does not consider that other PCU components, "Asset Segregation" and "Alternative Risk Management", present a high risk to payment continuity. Details on the assessment for the asset segregation and alternative risk management component can be found in Appendix 3.

Fitch considers that covered bond payments may continue to be met without any interruption once recourse to the cover pool has been enforced, provided there are satisfactory liquidity protection mechanisms. We view liquidity as the main driver of the smooth transition from the issuer to the cover pool as the source of covered bonds interest and principal payments, and therefore normally the main determinant of the PCU, unless other risks constitute a greater threat to payment continuity.

Recovery Uplift: One Notch

Upon the default of the covered bonds, the agency expects them to benefit from good to superior recoveries, based on Fitch's broad asset analysis and recovery expectations. The high share of owner-occupied properties as well as of single family houses and its low weighted average LTMLV reflect the cover pool's overall high quality. Despite the geographical concentration of cover assets, Fitch does not identify the presence of cumulative risk factors, given the diversified business landscape in Westmuensterland and its steadily growing property market.

This is in line with one-notch recovery uplift under Fitch criteria for programmes where the agency was not able to conduct a full asset analysis.

Abbreviations

IDR: Issuer Default Rating

OC: Overcollateralisation

PCU: Payment Continuity Uplift

PD: Probability of Default

WAL: Weighted Average Life

LTMLV: Loan to Mortgage Lending Value

Cover Pool

As of 31 March 2018, the cover pool contained EUR674.7 million of residential mortgage loans to private individuals and EUR22.5 million substitute assets. The cover pool is solely made up of so-called 'Kleindarlehen'. These are residential mortgage loans where the secured loan amount including all prior liens does not exceed EUR400,000.

Cover Pool – Sparkasse Westmuensterland Mortgage Pfandbriefe

Characteristics as of March 2018

General		**Geographical breakdown (%)**	
Current principal balance (EURm)	674.7	North Rhine-Westphalia	98.8
Number of loans	14,199	Other	1.2
Number of borrowers	10,752		
Average loan per borrower (EUR)	64,847	**Property type (%)**	
WA seasoning (months)	71.9	Single family house	81.7
WA remaining life of assets (years)	12.6	Flat	16.2
WA current LTMLV (%)	50.7	Multifamily house	2.1
Property purpose (%)		**Amortisation type (%)**	
Owner occupied	86.0	Annuity	88.1
Investment property	14.0	Bullet	11.9
Loan type (%)			
Fixed	100.0		
Variable	0.0		

Source: Sparkasse Westmuensterland/Fitch

Cover Pool Credit Analysis

Fitch did not perform a full asset analysis. Detailed asset default and loss assumptions could not be derived because of limited data provision.

Cash Flow Analysis

Fitch did not perform a cash flow analysis due to limited data provision. As a result, the agency did not test for timely payment on the covered bonds.

Breakeven OC for the Rating/OC Fitch Relies On

Fitch's breakeven OC for the rating corresponds to the legal minimum OC, which is the higher of 0% on a nominal basis and 2% on a stressed net present value basis.

The agency takes into account in its analysis the lowest nominal OC (78.1%) of the previous 12 months.

Programme Review

Cover pool and covered bonds information is updated on a quarterly basis and displayed on Fitch's covered bond surveillance tool (available at www.fitchratings.com) and in the quarterly *Covered Bonds Surveillance Snapshot*.

Disclaimer

References in this report to the content and impact of relevant legislation and/or regulation represent Fitch's interpretation. Fitch relies on legal opinions or memoranda provided by issuers' and/or other outside legal counsel. As Fitch has always made clear, Fitch does not provide legal advice or confirm that a country's legal or regulatory framework, the legal opinions or memoranda, or any other programme documents or any structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Appendix 1: Analysis of Structural and Legal Aspects of the Programme

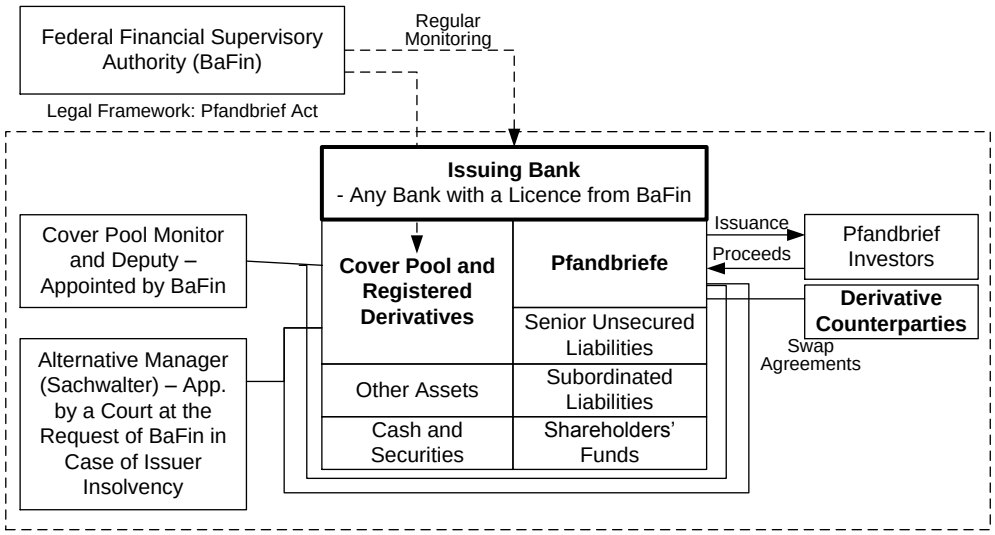
1.1. Programme Overview and Basis for Dual Recourse

SkWML can issue hard-bullet Pfandbriefe under this programme, which are secured by a dynamic pool of German residential mortgages. These are recorded in a dedicated cover register that does not belong to the insolvency estate of the issuer but constitutes a separate, bankruptcy exempt estate. The issuer holds a Pfandbrief licence, which was granted 2008.

As long as the issuer is solvent, it will repay covered bond obligations when due pari passu among themselves and with their senior liabilities, irrespective of the performance of the cover assets. On a second recourse, if issuer insolvency proceedings are started, outstanding covered bonds and registered cover assets will form a separate legal estate in the form of a so-called "Pfandbriefbank with limited business activity" (PBwLBA). The scope of this PBwLBA is restricted mainly to administration of the mortgage loans and repayment of covered bond obligations.

1.2. Issuance Template

Diagram of a Pfandbrief Issuance



Source: Fitch

1.3. Flow of Funds Within the Programme

Mortgage loans are cover pool eligible up to 60% of their mortgage lending value. Upon registration of a loan in the cover register, it becomes part of the cover pool. The issuance proceeds of the mortgage covered bonds flow in the general bank account and are not earmarked for the funding of mortgage loan origination.

Covered bond repayment will also be made from this account unless there has been an enforcement of the recourse to the cover pool. Fitch understands that upon its appointment, the alternative manager (Sachwalter) is the sole party entitled to disburse incoming cash flows from the cover assets to satisfy covered bond payments becoming due. The alternative manager is appointed by a court at the request of BaFin, at the latest upon the issuer's insolvency.

Priority of Payments

Two different priorities of payment for application of cash flows received from the cover assets exist. These depend on the timing of the appointment of the alternative manager.

Priority of Payments Prior to Alternative Manager Appointment

Before an alternative manager appointment, all cash flows from the asset portfolio flow to the

general bank account. Whenever covered bond payments, interest or principal, are due, the issuer must settle these in full and timely according to the bonds' terms and conditions. The issuer also bears all administrative costs related to the cover pool and the bonds.

The issuer is accountable for compliance with all legal requirements, in particular adherence with all eligibility criteria, minimum OC and liquidity requirements.

Post-Alternative Manager Appointment Priority of Payments

Following its appointment, the alternative manager holds the exclusive right to manage cover assets. This includes liquid assets and incoming cover asset interest and principal repayments. This right is not limited to the amount registered in the cover pool but extends to the whole loan. The alternative manager will deduct appropriate administration costs from the incoming mortgage loan cash flows.

Subsequently, the alternative manager is responsible for separating the incoming whole loan cash flows according to their legal status, i.e. cash flows will be split between cover pool loan part and junior ranking loan parts. Cash flows of junior ranking loan parts will be transferred to the general insolvency estate. From the cash flows of the registered loan parts, the alternative manager will deduct administrative costs relating to the cover pool, such as remuneration and special cover pool audit costs. All remaining funds must be used to repay the mortgage Pfandbriefe according to their terms and conditions.

Payments to privileged derivative counterparties rank pari passu with covered bond payments.

Should monies remain after all administration costs are satisfied and all privileged liabilities have been redeemed in full, the alternative manager will pass these on to the general insolvency estate.

The flow of funds may be affected by the table of events on the following page.

Table of Events and Relevant Consequences to the Issuer and the Bondholders

Event	Trigger	Consequence	Payer	Acceleration	Timely payments	Full repayment
Ongoing (before any of the following events).	None.	The issuer makes scheduled payments to the covered bonds out of its resources. All costs incurred are borne by the issuer. Any funds in connection with privileged swap agreements are to be paid directly to or by the issuer.	Issuer	No	Interest and principal to be paid on their due date.	Principal payments to be met in full by the issuer.
Appointment of alternative manager.	Commencement of issuer insolvency proceedings; or as a measure in case of danger as per Art.46 Kreditwesengesetz.	Upon commencement of insolvency proceedings cover pool, privileged derivatives and covered bonds are legally separated into the PBwLBA. BaFin proposes at least one and up to three alternative manager. The responsible court formally appoints the alternative manager. Upon appointment, the alternative manager is the only party allowed to dispose of cover assets including incoming payments on the cover assets. Covered bond payments are settled by the alternative manager according to their terms and conditions. Swap payments rank pari passu and are also settled by the alternative manager. Expenses are deducted from incoming cash flows before settling bond and swap payments.	PBwLBA	No	Interest and principal remain due as scheduled.	Principal payments to be met in full by the PBwLBA.
Default of the PBwLBA.	Default on any of its obligations, including covered bonds, or overindebtedness of the PBwLBA.	BaFin files an application for commencement of insolvency proceedings against the PBwLBA. All covered bonds become immediately due and payable at their early redemption amount plus accrued interest.	Insolvency estate of the PBwLBA	Yes	No	Depending on the proceeds deriving from the portfolio sale.

Source: Pfandbrief Act, Fitch

1.4. Structural Features of the Programme

SkWML's mortgage covered programme is based on the Pfandbrief legislation. The programme does not contain any additional structural features.

1.5 German Legislative Covered Bonds Framework

The table below is based on Fitch's understanding of certain aspects of the applicable regime and is not a substitute for the original texts and/or German legal advice.

Main Characteristics of German Legislative Pfandbriefe

German Pfandbrief Act (January 2015)

Issuers	Financial institutions with a licence to issue Pfandbriefe.
Supervision	German Federal Financial Supervisory Authority (BaFin).
Mortgage collateral	• Residential or commercial mortgages; • Geographical scope to the EU/EEA, Switzerland, the US, Canada, Japan, Australia, New Zealand or Singapore; • Up to 20% of the outstanding Pfandbriefe can be substitute assets.
Loan-to-value limits for mortgage loans	60% LTV based on the mortgage lending value.
Public sector assets	• Public-sector assets; • Geographical scope to the EU/EEA; • For assets from the US, Canada, Japan and Switzerland, the debtor must be assigned to credit quality step 1; • Up to 10% of the outstanding Pfandbriefe can be substitute assets.
Transfer of assets	Integrated template, assets remain on the issuer's balance sheet.
Cover register	Cover register is required for the respective cover pool.
Cover pool monitor	Independent cover pool monitor (Treuhänder) appointed by BaFin.
Alternative manager (Sachwalter)	A dedicated alternative manager would take over the management of the cover assets and outstanding liabilities post issuer default. He would be appointed by a court at the request of BaFin, at the latest upon the issuer's insolvency.
Minimum OC	• 0% nominal value; • 2% stressed net present value (NPV). The NPV is detailed in a specific net present value regulation (Barwertverordnung) including procedures, stress scenarios and risk models. The approach can be static or dynamic, or based on internal models.
Treatment of swap counterparties	Derivative counterparties rank pari-passu with the claims of the covered bond holders.
Pfandbriefbank with limited business activity	The cover pool constitutes an insolvency-free asset and continues to exist post issuer default as a PBwLBA to ensure the timely payment of the liability obligations. The PBwLBA would be managed by the alternative manager.

Source: Pfandbrief Act, Fitch

Appendix 2: Transaction Parties

Important Features of Counterparties

Counterparties	Role	Long-, Short-Term Ratings	Comments
Sparkasse Westmuensterland	Issuer	A+/Stable/F1+	

Source: Fitch, Programme documents

No privileged derivatives are registered to the cover pool, thus no swap provider exists.

A qualified cover pool monitor has been appointed by BaFin.

Appendix 3: Other Payment Continuity Risk Considerations

Asset Segregation

Fitch expects that ring-fencing of the cover pool will be effective given the "all-or-nothing" nature of this risk. The ring-fencing of cover assets from any claims from unsecured creditors of the defaulted financial institution is achieved by virtue of law – often in the form of an exemption to normal bankruptcy legislation, or through a transfer of the assets to a bankruptcy-remote special-purpose vehicle acting as a guarantor of the issued covered bonds.

Asset Segregation: No Impact on PCU

Component driver	Fitch assessment
Segregation of cover pool from other creditors of issuer	Cover assets are segregated through their registration in the cover register (Deckungsregister). Registered assets form a special estate (PBwLBA) and are exclusively available for the claims of the bondholders and privileged derivative counterparties.
Excess OC immune from claims from other creditors	Residual risk remains as the German covered bond law states that assets should be given back to the general insolvency estate if they are "obviously not necessary" to cover the claims of the bondholders, the minimum OC and the costs of the PBwLBA.
Asset and liability claw back risk	Remote risk of asset and liability claw back as circumstances in which claw back may occur are rare and rather hypothetical.
Commingling risk	Residual risk remains as prior to the commencement of insolvency proceedings or appointment of an alternative manager collections received are not separated from the general bank account in the issuer's name. No structural mitigating factors are in place. After beginning of insolvency proceedings or appointment of an alternative manager commingling is legally prohibited.
Set-off risk for deposits	Set-off against assets entered into the pool is excluded by law. Netting is only allowed for derivative contracts belonging to the same pool and from the same counterparty. No privileged derivatives are registered to the cover pool of SkWML.

Source: Fitch

Alternative Management

Systemic Alternative Management

Fitch takes into consideration the framework or contractual clauses governing the appointment of an alternative manager – together with the length of time required to appoint one – any potential conflict of interest (in cases where a single administrator in a bankruptcy takes care of covered bonds and other creditors), the alternative manager's responsibilities in the servicing and liquidation of the cover assets to meet payments due on the covered bonds and any further protection due to oversight or potential support for regulated covered bonds.

This regulated programme benefits from the statutory role of BaFin to request a suitably qualified alternative manager for the covered bond programme to manage a designated institution's covered bond activities upon an issuer's insolvency. The responsible court would then formally appoint the alternative manager.

Systemic Alternative Management

Component driver	Fitch assessment
Administrator takes exclusive care of covered bondholders? When are they appointed?	An alternative manager will service the pool in the interest of the bondholders. The alternative manager will be appointed at the latest at insolvency of the issuer by a court at the request of BaFin. Prior appointment is possible.
Importance of timeliness of payments in the legal provisions	The Pfandbrief Act highlights that liabilities should be repaid on their due date.
Substitute manager able to sell cover assets or borrow to make timely payments?	The alternative manager has the power to sell assets and take bridge-financing, take out loans or issue new Pfandbriefe.
Regulatory oversight	BaFin.

Source: Fitch

Cover Pool-Specific Alternative Management

Fitch focuses on the likely ease of the transferability of relevant data and IT systems to an alternative manager and buyer, with such quality and ease also judged on the quality and quantity of data provided to Fitch.

Cover Pool Alternative Management: No Impact on PCU

Component drivers	Fitch assessment
Cover assets, debtors' accounts and privileged swaps clearly identified within IT systems	Market standard systems are in place that ensure identification of that registered assets of SkWML.
Standardised or custom-made IT systems used	Fitch considers used systems to be well known in the market, enabling an alternative manager to easily start managing the programme.
Automation and speed of cover pool reporting	Fitch encountered limitations on available information, which did not enable the agency to perform a full asset analysis. Stratified information has been provided and will be provided on a quarterly basis.
Adequate filing of loan documentation, evidence of security	Loan files for residential loans are available partially in electronic and paper based form.

Source: Fitch

Privileged Derivatives

Fitch considers programmes encompassing privileged hedging agreements to be more vulnerable to a potential insolvency of the issuer. No privileged derivatives are registered to the mortgage covered bonds of SkWML.

Appendix 4: Origination and Servicing

Origination and Underwriting

SkWML's operations are almost exclusively concentrated in the districts of Borken and Coesfeld, which together form Westmuensterland. Typically, both the debtor and the property are located in Westmuensterland.

Loans are originated using different channels, mainly through its own branch network but also to a lesser extent through different mortgage brokers (19% of newly originated loans at end-2017). SkWML manages its own origination through eight branches focusing on mortgage loan origination, so-called 'ImmobilienCenters' (real-estate centres) with specialised advisors. Performance of brokerage firms is checked annually with a focus on correctness of information and debtors' creditworthiness.

Regardless of the origination channel, underwriting processes are centralised and supported by standardised IT system and risk-management processes. The application is checked by a loan officer to ensure completeness of required documents and information. A credit scoring is undertaken for each borrower. The issuer's risk system focuses on the borrower's debt service capacity. No loan is approved based on the collateral value only. Typically, newly originated loans have an LTV of 80% or lower; higher LTVs are only allowed given excellent credit history and sufficient income. Several internally developed scorecards and check-lists are used to ensure a complete and consistent approach.

Currently, the cover pool includes solely so-called 'Kleindarlehen'. These are residential mortgage loans where the secured loan amount including all prior liens does not exceed EUR400,000. For such properties the 'Regulation on the Determination of the Mortgage Lending Values' (Beleihungswertermittlungsverordnung – BelWertV) allows a simplified valuation approach. SkWML's simplified appraisal process foresees a formal property valuation conducted by a qualified loan officer and an on-site visit of the property, typically conducted by an appraiser. SkWML's employs three in-house-appraisers who further perform regular sample checks of the simplified valuations and provide annual trainings to the qualified loan officers.

Servicing

The covered bond programme is managed with market standard software, allowing for a daily pool registration of new loans. For all newly originated mortgage loans, specialists check loan and property cover pool eligibility. Selection criteria are based on the Pfandbrief Act and internal guidelines. Loans are registered to the pool after cover pool eligibility has been confirmed for each loan by dedicated assistants to the cover pool monitor. The cover pool monitor additionally performs regular sample checks on a monthly basis. For de-registration of loans cover pool monitor consent is required.

All customers receive a credit score in the range of 1 to 18, whereby everything higher than class 15 is considered defaulted. Loans in arrears by more than 90 days go to class 16. After a write down of the loan ('Einzelwertberichtigung') it is classified as class 17 and when the contract is terminated the loans move to class 18. SkWML does not include loans from borrowers with a credit score of 13 and higher in its cover pool. Should a customer migrate to these credit score categories their loans will be deregistered from the pool accordingly.

Regardless of loan size or delinquency amount, an automatic dunning letter is sent to the borrower 30 days after a payment has been missed and a second dunning letter after 45 days. After 60 days, a third dunning letter is sent. At that point, affected loans will be removed from the cover pool. The issuer aims to never have loans in the cover pool that are in arrears by more than 90 days.

SkWML offers restructuring for loans in arrears including deferred payments. Should the contract nevertheless be terminated the loan is handed over to the workout department to commence legal foreclosure process. Actual foreclosures, however, occur relatively rarely. Due to the high demand in the region, debtors are generally able to sell properties on the open market in a short time frame and at a reasonable price, limiting or avoiding losses for the savings bank and the borrower.

Business Continuity

SkWML has business continuity plans in place, supported by back-up data centres. Fitch's understanding is that the issuer's business continuity plans are sufficiently robust to allow for the restart of operations at alternative locations without any significant interruption.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.