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Transaction Update: Sp Mortgage Bank PLC CBA Mortgage Covered Bond Program

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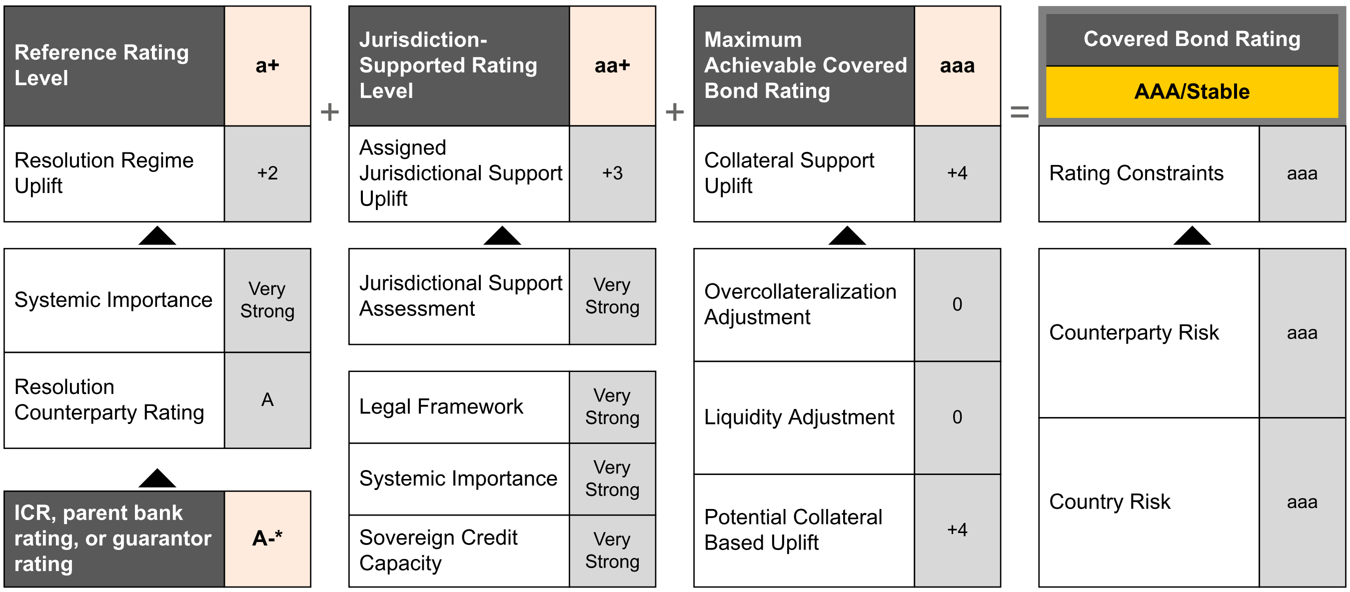
Ratings Detail



*As a starting point of the analysis, we may use the ICR of the parent or guarantor when the issuer is not rated, but it belongs to a group with a rated parent or payments under the covered bonds are guaranteed by another rated entity. ICR--Issuer credit rating.

Major Rating Factors

Strengths

- The cover pool of prime Finnish residential loans forms a granular and well-seasoned portfolio.
- The structure benefits from the issuer's public commitment to maintain overcollateralization consistent with a 'AAA' rating.
- Liquidity risk is mitigated by the bonds' soft-bullet repayment profile.

Weaknesses

- About three quarters of the cover pool are constant annuity loans, which could potentially result in delayed repayment of mortgage assets in a high interest rate environment, in our view.
- The cover pool contains a high share of loans with subordinated claims, which increases loan-to-value ratios and therefore leads to higher default probability of the borrower, in our view.
- Commingling risk in the transaction is not contractually or structurally addressed. We size this risk in the credit enhancement commensurate with the 'AAA' rating.

Outlook: Stable

S&P Global Ratings' stable outlook on the 'AAA' ratings on Sp Mortgage Bank PLC's (SPMB) CBA mortgage covered bond program and related covered bonds issuance reflects two unused notches of collateral-based uplift that would protect the ratings on the covered bonds if we were to lower the long-term issuer credit rating (ICR) on the Central Bank of Savings Banks Finland PLC (Sp Central Bank (parent); A-/Stable/A-2) by up to two notches.

All else being equal, we would lower our ratings on the covered bonds if we lowered our rating on Sp Central Bank by more than two notches or if the available overcollateralization no longer exceeds the credit enhancement level that is commensurate with 'AAA' ratings.

Rationale

This transaction update follows our periodic review of SPMB's covered bond program and related covered bond issuance under Finland's Covered Bond Act, (CBA, 151/2022; the "CBA 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.

From our analysis of SPMB's covered bond program and the Finnish covered bond legislation, we consider that the cover pool assets are isolated for the benefit of the covered bondholders if the issuer becomes insolvent. The protection of the cover pool assets and the continued management of the cover pool allows us to rate the covered bonds higher than the long term ICR on Sp Central Bank. The ICR on Sp Central Bank reflects the franchise and the creditworthiness of the wider Savings Banks Group Finland.

SPMB belongs to the Savings Banks Amalgamation. We conducted a review of SPMB's mortgage operations, which we view as prudent. We believe satisfactory procedures are in place to support our ratings on the covered bond and the program.

Following our resolution regime analysis, we determined a reference rating level (RRL) of 'a+'. SPMB is domiciled in Finland, 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 in Finland. These factors increase the likelihood that SPMB 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 the ICR on Sp Central Bank to determine the covered bonds' RRL.

Our jurisdictional support analysis determined the jurisdiction-supported rating level (JRL) on the covered bonds as 'aa+'. We considered the likelihood for the provision of jurisdictional support for Finnish mortgage covered bonds which we assess as very strong, resulting in three notches of uplift from the RRL.

We base our credit and cash flow analysis on loan-by-loan data as of June 30, 2023, and asset and liability cash flow projections as of Sept. 30, 2023 respectively. The available credit enhancement of 33.7% (based on current loan balances) exceeds the target credit enhancement of 33.4%. The covered bonds are eligible for up to four notches of collateral-based uplift. We do not reduce the total collateral-based uplift owing to the program's committed overcollateralization and because we consider that the covered bonds' soft-bullet maturity mitigates liquidity risk.

Counterparty and sovereign risk do not constrain the 'AAA' covered bond ratings.

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

Program Description

Table 1

Program overview*	
Jurisdiction	Finland
Year of first issuance	2022
Covered bond type	Legislation-enabled
Outstanding covered bonds (mil. €)	750
Redemption profile	Soft-bullet
Underlying assets	Finnish residential mortgage loans
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	33.41
Credit enhancement for current rating (%)§	22.05
Available credit enhancement (current balance, %)	33.70
Collateral support uplift	1
Unused notches for collateral support	3
Total unused notches	2†

*Based on cash flows as of Sept. 30 2023. §Corresponding to 'AAA' credit risk plus 25% of refinancing costs. †There are two unused notches of collateral-based uplift given that if we were to lower our rating on Sp Central Bank, we would also lower our ratings on the covered bonds as per our counterparty risk criteria, all else being equal (see 'Counterparty risk').

SPMB is a part of the Savings Banks Group Finland with joint and several liability between the amalgamation members. The Group comprises Savings Banks' Union Coop, Sp Central Bank, 14 independent savings banks, SPMB, and product companies (not covered by joint and several liability).

SPMB was established in March 2016 to provide competitive funding to the savings banks. The mortgage covered bonds are issued under SPMB's €3 billion program for the issuance of covered bonds. The CBA cover pool which is subject to this review was established in late 2022 to issue covered bonds under the CBA, 151/2022 (see "Sp Mortgage Bank Finnish CBA Covered Bond Program And First Issuance Assigned 'AAA' Rating; Outlook Stable", published Nov. 1, 2022). SPMB also manages another cover pool containing covered bonds issued prior to the implementation of the EU Covered Bond Directive on July 8, 2022 under the Finnish Act on Mortgage Credit Bank Activities (688/2010) (the "MCBA Covered Bond Program"), which we analyze separately.

The covered bonds issued under the CBA Covered Bond Program rank pari passu among themselves, but do not relate to the MCBA Covered Bond Program. Covered bondholders and derivative counterparties related to the CBA Covered Bond Program have a priority claim only on the assets registered in the CBA Covered Bond Program. Similarly, covered bondholders and derivative counterparties related to the MCBA Covered Bond Program have a priority claim only on the assets registered in the MCBA Covered Bond Program.

The covered bonds constitute SPMB's direct unconditional and unsubordinated debt obligations and are secured by a cover pool of euro-denominated Finnish residential mortgage loans registered in line with the CBA. The covered bonds benefit from a 12-month maturity extension.

The Finnish covered bond law enables SPMB to grant intermediary loans to member banks of the Savings Banks Group Finland. In return for the intermediary loans the group members must pledge eligible cover pool assets from their balance sheets to the cover pool as security for the covered bonds. SPMB must record these collateral assets in the cover register together with the intermediary loans. SPMB's cover pool comprises residential mortgages pledged by its group members to the cover pool as security for the covered bonds.

The covered bonds benefit from SPMB 's commitment to maintain overcollateralization sufficient to support a 'AAA' rating on the covered bonds.

SPMB has entered into an interest rate swap with Nordea Bank Abp, to hedge the risk arising from the interest received on the floating-rate paying mortgage loans and on the fixed-rate covered bond.

The mortgage borrowers make their payments to their respective bank accounts in the group's member banks. The payments made by mortgage borrowers are only registered as part of the cover pool after the insolvency of the issuer. While this mechanism protects mortgage payments post issuer default, funds standing or paid in the collection accounts pre issuer insolvency would be exposed to commingling risk. This is because these collections are not segregated in the cover pool.

Sp Mortgage Bank CBA Mortgage Covered Bond Program

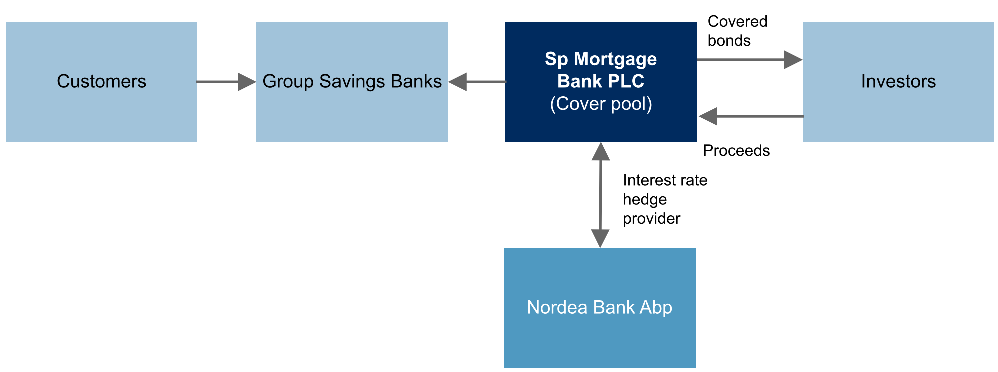


Table 2

Program participants

Role	Name	Rating	Rating dependency
Issuer	Sp Mortgage Bank PLC	NR*	Yes
Originator	Savings Banks Group Finland	NR	No
Interest rate hedge provider	Nordea Bank Abp	AA-/Stable/A-1+	Yes

*We apply the potential notches of uplift to the long-term rating on Central Bank of Savings Banks Finland PLC to derive the ratings on the covered bonds. NR--Not rated.

Rating Analysis

Legal and regulatory risks

We base our legal analysis on our "Asset Isolation and Special-Purpose Entity Methodology," published on March 29, 2017.

SP Mortgage Bank's covered bonds are governed by the CBA, which entered into force on July 8, 2022, and implemented the EU Covered Bonds Directive into national legislation. The CBA repealed the Finnish Act on Mortgage Credit Bank Activities (688/2010; MCBA).

In our opinion, the CBA satisfies the relevant legal aspects we assess under our covered bond criteria, specifically the cover pool assets' isolation from the risk of an issuer's bankruptcy or insolvency, so that covered bond payments continue on their scheduled dates (see "Covered Bonds Criteria," published on Dec. 9, 2014 and "A Closer Look At Finland's Covered Bond Framework," published on Sept. 27, 2023). This allows us to rate the covered bond program above the ICR on Sp Central Bank.

Under the CBA, the issuer's bankruptcy would not automatically trigger the covered bonds' early redemption or the suspension of payments to bondholders. Accordingly, we rate the covered bonds based on the legal final maturity.

The CBA requires issuers to have a license from the Finnish Financial Supervisory Authority (FIN-FSA) to engage in mortgage credit bank operations. Issuers must maintain a register for the covered bonds and the collateral forming the cover pool. The FIN-FSA monitors the management of the register, including the recording of assets, and the issuer must at least quarterly report the information in the register to the FIN-FSA.

The cover pool can comprise residential mortgage loans, commercial mortgage loans, public-sector loans, and substitute assets to facilitate liquidity management.

Derivatives are allowed for risk hedging purposes and must be registered in the cover register. They must also, according to their terms, remain in force despite the issuer's bankruptcy, liquidation, or resolution. Derivative counterparties benefit from the same statutory priority right as covered bondholders.

Pursuant to the CBA, a specialized mortgage credit bank can grant intermediary loans to a credit institution belonging to the same consolidated group or amalgamation of deposit banks (group members) as the mortgage credit bank. Intermediate loans must be covered with eligible cover assets and the issuer must record these assets in the cover register. Once registered in the cover pool, they serve as collateral for the covered bonds for the benefit of the covered bond holders. We perform our analysis based on the underlying loans that are pledged as collateral for the covered bonds and form the cover pool.

Under the CBA, issuers must have 2% overcollateralization on a net present value (NPV) basis, or 5% on an NPV basis if the requirements of article 129 (3)(a) subparagraph 3 of the Capital Requirements Regulation are not fulfilled (in each case considering derivatives and estimated winding-down costs).

Under the CBA the cover pool must continuously contain sufficient substitute assets (liquid assets) to meet the maximum net outflow related to the covered bonds during the upcoming 180-day period. In calculating the net outflow, issuers may consider the extended maturity date of the covered bonds.

The CBA allows covered bonds with a 12-month maturity extension, subject to approval by the FIN-FSA and certain conditions being met, including:

- The issuer being unable to obtain long-term financing from ordinary sources;
- The issuer being unable to meet the liquidity requirement under the CBA upon payment of the covered bonds; and
- The extension not affecting the order of the maturity based on the original maturity dates of covered bonds secured by the same cover pool.

If the issuer becomes insolvent, the FIN-FSA would appoint a supervisor to supervise management of the cover pool including their conversion into cash and the contractual payments due to covered bondholders and derivative counterparties. While a bankruptcy administrator (appointed by a court) manages both the issuer's insolvency estate and the cover pool, the supervisor's role is to protect the interests of covered bondholders with powers to direct the issuer's general administrator. If necessary, the administrator can--upon the demand or with the consent of the supervisor--sell assets to make payments on the covered bonds, enter derivative transactions, and secure liquidity to fulfil the payment obligations related to the covered bonds.

We understand that under the CBA, acceleration can only occur (upon the request or approval of the supervisor) if the total collateral amount requirements for the covered bonds cannot be met. The essence of the cover pool supervisor's role, which also applies in this instance, is to protect the covered bondholders' interests.

Upon issuer insolvency, covered bondholders and derivative counterparties have a preferential claim to the assets in the cover pool, which would be isolated from the issuer's other assets.

Under the CBA, bondholders and derivative counterparties have a priority of payment right to 100% of the properties' value, although only 80% of the market value of residential properties and 60% of the market value of commercial estate properties can be included in the determination of overcollateralization.

The CBA excludes setoff against cover pool assets and claw-back risk.

Operational and administrative risks

Our analysis of operational and administrative risks follows the guidelines in our covered bond ratings framework criteria.

SPMB does not originate loans, but depends on the savings banks' network, which currently comprises 14 savings banks. Credit decisions of the savings banks are made based on lending guidelines issued by Sp Mortgage Bank, and the savings banks are bound to repurchase any loans that would not be compliant with the guidelines. We view SPMB's underwriting criteria as comparable with market standards in Finland.

We believe that a replacement servicer would be appointed if the issuer were to become insolvent. We consider Finland to be an established covered bond market and we believe that the mortgage assets in SPMB's cover pool do not have product features that would materially limit the range of available replacement cover pool managers or servicers. We have modelled a servicing fee we deem sufficient to attract a replacement servicer.

We consider the issuer's underwriting and servicing standards to be sufficient to support our ratings on the covered bonds. We therefore did not apply any analytical adjustments to account for operational and administrative risks.

Resolution regime analysis

SPMB is domiciled in Finland, which is subject to the EU's BRRD. We assess the systemic importance for Finnish mortgage programs as very strong. Under our covered bonds criteria, this means that the RRL is the greater of (i) the issuing bank's ICR, plus up to two notches for programs in jurisdictions with effective resolution regimes that exempt covered bonds from bail-in, and (ii) the resolution counterparty rating (RCR) on the issuing bank, where applicable. Where the issuer is not rated but belongs to a group with a rated parent, we may use the ICR on the parent as a starting point of the analysis. Given the 'A-' long-term ICR and the 'A' RCR on Sp Central Bank, the RRL is 'a+'.

This uplift recognizes 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 risk if there is a bank resolution. 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

Our jurisdictional support analysis assesses the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market.

Our assessment of the expected jurisdictional support for Finnish mortgage programs is very strong. In addition, our sovereign credit rating on Finland (AA+/Stable/A-1+) does not constrain the JRL. Under our covered bonds criteria, the covered bonds therefore receive three notches of jurisdictional uplift over the RRL leading to a JRL of 'aa+'.

Collateral support analysis

We assess a typical residential mortgage cover pool's credit quality by estimating the credit risk associated with each loan in the pool. We base this loan-level analysis on the specific adjustments defined for Finland under our global RMBS criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

We based our credit and cash flow analysis on loan-by-loan data as of June 30, 2023, and asset and liability cash flow projections as of Sept. 30, 2023, respectively.

The €1 billion cover pool of euro-denominated Finnish residential mortgage loans forms a granular and well-seasoned portfolio. Since we assigned ratings in November 2022, the cover pool's composition and credit quality remained stable.

Our analysis estimated the foreclosure frequency and the loss severity of each loan in the cover pool. To quantify the potential losses associated with the entire pool, we calculated a weighted-average foreclosure frequency (WAFF) and a weighted-average loss severity (WALS) assuming 'AAA' credit stresses. The product of these two variables estimates the required loss protection, assuming all other factors remain unchanged. We assume that the probability of foreclosure is a function of both the borrower and loan characteristics and will become more likely--and the realized loss on a loan more severe--as the economic environment deteriorates.

The main determinants of the credit results in this portfolio are a large share (66%) of constant annuity loans, attracting an upward adjustment to the base foreclosure frequency to reflect a potential payment shock and loans to self-employed borrowers (18%). Furthermore, the exposure to residential loans in the West of Finland exceeds our regional concentration limit of 35% and attracts a 20% increase to their base foreclosure frequency on the excess above the limit (see table 4).

At a 'AAA' level of stress, the WAFF is 15.77% (16.19% previously) and the WALS (based on the reported current loan balances) is 20.16% (21.30% previously). The combination of the WAFF and WALS as the measure of the cover pool's overall credit quality (credit coverage: WAFF x WALS) has decreased slightly to 3.18% from 3.45% previously.

The lower WAFF primarily reflects a slight increase in loan seasoning, a reduction in the share of buy to let loans, and constant annuity loans.

The WALS improved due to the reduction in the share of loans backed by properties exceeding our jumbo valuation limits, which follows our upward revision of the jumbo valuation limits for Finland under our criteria ("Global Methodology And Assumptions: Assessing Pools Of Residential Loans," Jan. 25, 2019). The positive effect of a lower share of loans exceeding our jumbo valuation limits on the WALS more than compensated for the slight increase in current loan-to-value (LTV) ratios after house price indexation and market value decline assumptions. While both the WAFF and the WALS are based on updated valuations, the loss severity does not incorporate exposure to subordinated claims. Given the relatively high share of loans with subordinated claims attached to them, the current LTV ratio (58.6%) used for our loss calculations is lower than the effective LTV ratio that we base our default probability on (67.5%).

Finnish property prices have generally risen since 1996 but have stabilized in recent years. House prices and income levels have tended to move in tandem, and our analysis currently considers Finnish residential properties as slightly undervalued.

The results of our credit analysis, including WAFF and WALS, represent inputs to our cash flow analysis. Our cash flow analysis concludes that the cash flows from the cover pool assets are sufficient, at the 'AAA' rating, to make timely payment of interest and ultimate payment on principal on the covered bonds on their legal final maturity.

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.

The program is exposed to structural asset-liability maturity mismatch risk because the covered bonds' repayment profile is not aligned with that of the assets. Our cash flow model simulates a stressed sale of assets whenever a liquidity gap occurs in our analysis. The discount applied for Finnish residential mortgage assets is 425 basis points, on top of the stressed interest rate at the time of the shortfall.

SPMB's covered bonds pay a fixed rate of interest. To mitigate interest rate risk arising from the floating-rate assets, the issuer has entered into a swap agreement. We take this hedge into account in our cash flow analysis (see "Counterparty risk").

Our 'AAA' credit risk is our baseline measure of cash flow risk assuming no asset-liability mismatch. This measure has increased to 18.26% as of Sept. 30, 2023 from 15.74% at closing, mainly due to the reduction in excess spread in the program. All covered bonds pay a fixed interest rate and are swapped into variable rate payments. Increasing interest rates led to a rise in payments on the covered bonds. While the interest rate portion of the constant annuity loans is tied to a variable interest rate, the inflows on these assets are fixed in nominal terms. This is because of the nature of the product itself: The borrower's installments are fixed in nominal terms. Depending on the interest rate level, a higher or lower share of this fixed amount forms the interest portion, with the remaining part being the principal payment. Even if interest rates rise and a larger part of the monthly installment paid by the borrower is an interest portion, the income for the cover pool on that loan is still a fixed amount. On the other hand, the variable rate bond payments are increasing. Therefore, the difference between income on the assets and payment on the covered bonds (excess spread) is decreasing in a rising interest rate environment. Given that almost two-thirds of the cover pool assets are constant annuity loans, excess spread has decreased in the program.

A positive factor that mitigated these increased interest payments on the bonds relative to the income on the assets, is the lower credit coverage.

In addition to 'AAA' credit risk, our target credit enhancement includes the additional credit enhancement that we expect is required to refinance the cover pool in a stressed environment. We calculate a target credit enhancement of 33.41% (24.33% previously), below the available credit enhancement of 33.70%. The rise in target credit enhancement is further driven by an increase in the asset liability maturity mismatch.

We believe that there is an active secondary market for the cover pool assets. Therefore, the covered bonds can potentially benefit from up to four notches of collateral-based uplift above the JRL. From this potential uplift, we make no deductions due to the covered bond's soft bullet maturity which satisfies the liquidity coverage requirement under our criteria, and SPMB's overcollateralization commitment commensurate with a 'AAA' rating. Therefore, the maximum collateral uplift is four notches above the JRL.

With a JRL of 'aa+', the program requires one notch to reach a 'AAA' rating, therefore three notches of collateral-based uplift are unused. Considering our counterparty risk criteria, these three unused notches reduce to two (see "Swaps").

The overcollateralization commensurate with a 'AAA' rating is 22.05%, determined by 'AAA' credit risk plus 25% refinancing costs.

Table 3

Cover pool composition

	As of June 30, 2023		As of Aug. 31, 2022	
Asset type	**Cover pool (current balance, mil. €)**	**Percentage of cover pool (%)**	**Cover pool balance (current balance, mil. €)**	**Percentage of cover pool (%)**
Residential mortgage loans	1,000.25	100.00	1,003.11	100.00
Substitute assets	0.00	0.00	0.00	0.00
Other asset type	0.00	0.00	0.00	0.00
Total	1,000.25	100.00	1,003.11	100.00

Table 4

Key credit metrics

	As of June 30, 2023	As of Aug. 31, 2022
Average loan size (€)	72,434	71,835
Weighted-average effective LTV ratio (%)*	67.48	66.59
Weighted-average cover pool current LTV ratio (%)§	58.63	57.08
Weighted-average loan seasoning (months)†	68.96	67.74
Balance of loans in arrears (%)	0	0
Buy-to-let loans (%)	7.63	8.5
Self-employed borrowers (%)	18.21	18.13
Constant annuity loans (%)	66.13	68.67
Credit analysis results:		
WAFF (%)	15.77	16.19
WALS (%)	20.16	21.3
'AAA' credit risk (%)	18.26	15.74

*Effective LTV based on 100% of current indexed whole loan LTV. §Weighted-average current indexed LTV based on current balance. †Seasoning refers to the elapsed loan term. LTV--Loan to value. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Table 5

Current LTV ratios

	As of June 30, 2023		As of Aug. 31, 2022	
(%)	Effective whole loan LTV (%)*	Cover pool current LTV (%)§	Effective whole loan LTV (%)*	Cover pool current LTV (%)§
0-40	16.72	22.18	17.36	24.22
40-50	10.31	12.2	10.78	12.39
50-60	14.43	15.14	14.6	16.2
60-70	16.38	17.05	15.59	15.75
70-80	14.75	13.46	13.86	13.28
80-90	12.77	11.13	11.89	10.97
90-100	8.09	7.33	8.95	6.73
Above 100	6.56	1.51	6.97	0.46
Weighted-average LTV ratios	67.48	58.63	66.59	57.08

*100% of current indexed whole loan LTV. §Current LTV based on current balance excluding subordinated claims. LTV--Loan-to-value.

Table 6

Loan seasoning distribution*

	As of June 30, 2023	As of Aug. 31, 2022
	Percentage of current pool balance	Percentage of current pool balance
>0 and <=2years	17.46	22.46
>2 and <=4 years	24.97	20.88
>4 and <=5 years	9.16	9.07
>5 and <=6 years	8.31	7.84
>6 and <=7 years	6.75	7.41
>7 and <=8 years	6.61	6.99
>8 and <=9 years	6.54	5.73
>9 and <=10 years	4.72	4.75
>10 years	15.48	14.87
Weighted-average loan seasoning (months)	68.96	67.74

*Seasoning refers to the elapsed loan term.

Table 7

Geographic distribution of loan assets

	As of June 30, 2023	As of Aug. 31, 2022
	Percentage of current pool balance (%)	Percentage of current pool balance (%)
Southern Finland (including Helsinki)	43.85	43.72
Eastern Finland	7.2	8.24
Western Finland	40.59	39.86
Oulu	6.34	6.32
Lapland	1.98	1.79
Aland	0.04	0.07
Total	100	100

Table 8

Collateral uplift metrics		
	As of Sept. 30, 2023	**As of Aug. 31, 2022**
Asset WAM (years)	10.57	9.03
Liability WAM (years)	5.25	6.25
Available credit enhancement (current balance, %)	33.7	33.75
Required credit enhancement for coverage of 'AAA' credit risk (%)	18.26	15.74
Required credit enhancement for first notch of collateral uplift (%)	22.05	17.89
Required credit enhancement for second notch of collateral uplift (%)	25.84	20.04
Required credit enhancement for third notch collateral uplift (%)	29.62	22.18
Target credit enhancement for maximum uplift (%)	33.41	24.33
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	N	N
Achievable collateral support uplift (notches)	4	4

WAM--Weighted-average maturity.

Counterparty risk

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

Bank account provider

Borrowers make mortgage payments to the bank account of the member bank that originated the loans. These payments are only registered as part of the cover pool after the insolvency of the issuer. While this mechanism protects mortgage payments post issuer default, funds standing or paid in the collection accounts pre issuer insolvency could be exposed to commingling risk. This is because these collections are not segregated in the cover pool. We took this risk into account considering the issuer's monthly overcollateralization reporting and assuming that half month of collections are lost.

Swaps

The structure benefits from a liability hedge with Nordea to hedge the interest rate risk arising from the variable interest paid by the assets and the fixed interest rate payable on the covered bonds.

To derive the maximum potential rating on the covered bonds under our counterparty criteria, we consider various factors, including whether the counterparty is related to the issuer, the seniority of termination payments, the replacement commitment, and the collateral posting framework. Nordea is unrelated to the issuer and entitled to termination payments that rank pari passu with payments on the covered bonds. According to the swap documentation, Nordea has committed to replace itself if the RCR falls below 'A-'. If Nordea fails to meet this commitment, an additional termination event would allow the issuer to terminate the derivative agreement. Furthermore, if we lower our RCR on Nordea below 'A-', it has committed to post collateral sufficient to cover the issuer's exposure to it, plus certain volatility risks in the swap value. We categorize the current collateral-posting framework in the derivative contracts as strong.

The collateral framework assessment, combined with the current RRL on the issuer and the counterparty replacement trigger ('A-'), support a 'AAA' rating under our counterparty risk assessment. However, if we were to lower our rating on Sp Central Bank by more than two notches, we would also lower our ratings on the covered bonds, all else being equal. As a result, the program currently benefits from two unused notches of collateral-based uplift.

Sovereign risk

We analyze sovereign risk according to our "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019. Under our structured finance sovereign risk criteria, covered bonds backed by residential mortgages issued in a jurisdiction that is within a monetary union that include structural coverage of refinancing needs over a 12-month period (provided by the 12-month extendible maturity profile of the soft-bullet bonds in this instance) exhibit low sensitivity to country risk. As a result, we can rate the covered bond up to five notches above the sovereign rating. Given our 'AA+' long-term rating on Finland, sovereign risk does not constrain our rating on the covered bonds.

Environmental, Social, And Governance (ESG)

ESG considerations have no material influence on our credit rating analysis of SPMB's mortgage covered bonds. The Finnish government guarantees part of the loan on certain residential mortgages but as we do not consider the guarantee timely, it does not affect the credit analysis. SPMB commits to maintain a level of overcollateralization in the program to maintain the rating on the covered bonds. Further, the bonds' soft-bullet repayment structure mitigates liquidity risk.

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: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 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: Covered Bonds Criteria, Dec. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Central Bank of Savings Banks Finland PLC, Nov. 13, 2023
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