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Transaction Update: Sp Mortgage Bank PLC (Mortgage Covered Bond Program)

€3 Billion Covered Bond Program

Primary Credit Analyst:
Judit O Papp, Frankfurt + 49 693 399 9319; judit.papp@spglobal.com

Secondary Contact:
Parashar Tendolkar, London +44 (7967) 273863; Parashar.Tendolkar@spglobal.com

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Ratings Detail

Reference Rating Level	a+
Resolution Regime Uplift	+2
Systemic Importance	Very Strong
Resolution Counterparty Rating	A
ICR or Parent Bank Rating or Guarantor Rating	A-*

+

Jurisdiction-Supported Rating Level	aa+
Assigned Jurisdictional Support Uplift	3
Jurisdictional Support Assessment	Very Strong
Legal Framework	Very Strong
Systemic Importance	Very Strong
Sovereign Credit Capacity	Very Strong

+

Maximum Achievable Covered Bond Rating	aaa
Assigned Collateral Support Uplift	+1
Overcollateralization Adjustment	0
Liquidity Adjustment	0
Potential Collateral Based Uplift	+4

=

Covered Bond Rating	AAA/Stable
Rating Constraints	aaa
Counterparty Risk	aaa
Country Risk	aaa

*As a starting point of the analysis, we may use the ICR on 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

- A granular, prime Finnish residential loans portfolio with comparatively low loan-to-value (LTV) ratios.
- The program benefits from a public commitment to maintain overcollateralization consistent with a 'AAA' rating.

Weakness

- Commingling risk in the program is not contractually or structurally addressed. We size this risk in the credit enhancement commensurate with the 'AAA' rating.

Outlook: Stable

The stable outlook on the 'AAA' ratings on Sp Mortgage Bank PLC's (SPMB) mortgage covered bonds reflects the cushion of one unused notch of collateral-based uplift that would protect the ratings if we were to lower the long-term

issuer credit rating (ICR) on the Central Bank of Savings Banks Finland PLC (parent) by one notch.

All else being equal, we would lower our ratings on the covered bonds if we lowered our rating on the parent by more than one notch or if the available overcollateralization no longer exceeds the level commensurate with 'AAA' ratings.

Rationale

We are publishing this transaction update as part of our periodic review of SPMB's €3 billion covered bond program and related issuances.

Our covered bond ratings process follows the methodology and assumptions outlined in our covered bonds criteria and our covered bond ratings framework criteria (see "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015).

From our analysis of the program's documents, legal opinions, and the Finnish legislative covered bond framework, we have concluded that the cover pool assets are isolated from the issuer's and the issuer group's insolvency risk. The asset isolation allows us to rate the covered bond program above the long-term rating on the parent.

SPMB belongs to the Savings Banks Amalgamation. We derive the starting point of our analysis from the long-term ICR on the Central Bank of Savings Banks Finland (parent). We conducted a review of SPMB's mortgage operations, which we view as prudent. We believe satisfactory procedures exist to support our ratings on the covered bonds and the program.

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 rating on the parent to determine the covered bonds' reference rating level (RRL).

We then consider the likelihood of jurisdictional support, which we assess as very strong for mortgage covered bond programs in Finland. Therefore, we apply three notches of uplift from the RRL to determine a jurisdiction-supported rating level of 'aa+'.

To reach a 'AAA' rating, the program requires one notch of uplift from the jurisdiction-supported rating level (JRL). We do not reduce the total potential collateral-based uplift owing to the program's committed overcollateralization and because we consider that the liabilities' soft-bullet structure mitigates liquidity risk. Based on our cash flow analysis as of March 31, 2023, the available credit enhancement of 49.66% exceeds the required credit enhancement of 16.85% for one notch of uplift.

Legal, operational, counterparty, or sovereign risks do not constrain the 'AAA' covered bond ratings.

Program Description

Table 1

Program overview*	
Jurisdiction	Finland
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. €)	1.30
Redemption profile	Soft bullet
Underlying assets	Finnish residential mortgage loans
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	30.45
Available credit enhancement (%)	49.66
Collateral support uplift	1
Unused notches for collateral support	3
Total unused notches (including counterparty risk)	1

*Based on data as of March 31, 2023.

SPMB belongs to the Savings Banks Amalgamation and is a member bank of the Savings Banks' Union Coop. The Amalgamation's credit institution members share joint and several liabilities. SPMB was established in March 2016 to provide competitive funding to the savings banks.

SPMB issues the mortgage covered bonds under its €3 billion program. Since October 2022, the program incorporates two cover pools serving two sets of covered bond issuances. These cover pools as well as the covered bonds backed by them, are separate entities. The retired Finnish covered bond legislation (Mortgage Covered Bond Act of 2010, MCBA) governs the current program, which is no longer used for issuing new covered bonds, while the Finnish Covered Bond Act (CBA mortgage covered bonds) governs the covered bonds issued after July 8, 2022.

The three outstanding series issued from the MCBA mortgage covered bond program rank pari passu among themselves but do not relate to the CBA Mortgage Covered Bond Program. Covered bondholders and derivative counterparties related to the MCBA mortgage covered bond program have a priority claim only on the loans registered in the MCBA mortgage covered bond program. On the other hand, covered bondholders and derivative counterparties related to the CBA mortgage covered bond program have a priority claim only on the loans registered in the CBA mortgage covered bond program.

The covered bonds are the issuer's direct, unconditional, and unsubordinated debt obligations, and a cover pool of euro-denominated Finnish prime residential mortgage loans secure them. The loans in the cover pool are transferred from the savings banks in the network, new loans are originated via the savings banks' network, and a one-off portfolio transfer from the group's previous covered bond funding partner, Aktia Real Estate Mortgage Bank.

The program has three covered bonds outstanding with a total balance of €1.3 billion. The outstanding issuances are euro-denominated, and they pay a fixed rate of interest.

Table 2

Program participants

Role	Name	Rating	Rating dependency
Issuer	Sp Mortgage Bank PLC	NR	Yes
Arranger	Nordea Bank Abp	AA-/Stable/A-1+	No
Originator	Savings Banks Group Finland	NR	No
Bank account provider	Central Bank of Savings Banks Finland PLC	A-/Negative/A-2	No
Servicer	Savings Banks Group Finland	NR	No
Interest rate hedge provider	Nordea Bank Abp	AA-/Stable/A-1+	Yes

NR--Not rated.

Rating Analysis

Legal and regulatory risks

In our legal risk analysis, we applied our "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

The MCBA of 2010 sets out the legal framework for the Finnish covered bonds issued before July 8, 2022. In our opinion, the framework is in line with the relevant legal requirements of our covered bond criteria. This enables us to rate the covered bonds above the long-term ICR on the Central Bank of Savings Banks Finland.

If the issuer defaults, bondholders can initiate regular insolvency proceedings. In addition, under the MCBA, they have a preferential claim to the cover pool. Under the legislation, the cover pool can comprise residential mortgage loans including shares in housing companies, public-sector loans, substitute assets, and commercial mortgage loans for a maximum of 10% of the pool. Cover pool assets must be from European Economic Area countries.

Under the legal framework, the cover pool assets must be registered in the issuer's cover pool to be isolated from other assets if it becomes insolvent. The issuer must quarterly report the information in the register to the Finnish Financial Supervisory Authority (FIN-FSA). The register also includes the counterparties to derivative contracts, which must be able to survive the issuer's insolvency.

If the issuer were to become insolvent, the FIN-FSA would appoint a special cover pool administrator to supervise the covered bondholders' interests. If necessary, the administrator can sell assets or accelerate the covered bonds' payment if it considers this to be in the bondholders' best interests, subject to FIN-FSA approval.

To facilitate liquidity management, up to 20% of a mortgage cover pool can temporarily include substitute assets, such as state, municipal, or other public-sector or financial entities.

Under the MCBA, the issuer's bankruptcy would not result in the covered bonds' early redemption or payment suspension to the bondholders. Accordingly, we rate the covered bonds based on their legal final maturity.

Following implementation of the CBA on July 8, 2022, no new covered bonds can be issued under the MCBA. Therefore, SPMB will not issue any new series out of this program.

Operational and administrative risks

Our operational and administrative risk analysis 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 16 savings banks. The savings banks make credit decisions based on SPMB's lending guidelines, and the savings banks must repurchase any loans that do not comply with the guidelines. We view SPMB's underwriting criteria as comparable with market standards in Finland.

We believe that it is highly likely 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 believe that the mortgage assets in the cover pool do not have product features that would materially limit the range of available replacement cover pool managers or servicers. We have modeled 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 covered bond ratings. 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 BRRD. We assess the systemic importance for mortgage programs in Finland as very strong. Under our covered bonds criteria, this means that the RRL will be the greater of: (i) the ICR on the issuing bank plus 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 issuer, 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 our analysis. Given the 'A-' long-term ICR and the 'A' RCR on Central Bank of Savings Banks Finland PLC, 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 in the event of 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 support from the government.

Jurisdictional support analysis

In our jurisdictional support analysis, we assess 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 covered bond programs is very strong. Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift from the RRL. This leads to a JRL of 'aa+'. The JRL cannot exceed the rating on the sovereign providing the support to the covered bonds, which in this case is Finland, at '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 analysis on loan-by-loan residential loan data as of Dec. 31, 2022, and cash flow information as of March 31, 2023.

The cover pool comprises euro-denominated Finnish residential loans, including shares in housing associations. Since our previous review, the mortgage loan portfolio's composition remained stable, and its credit quality improved as reflected in our credit analysis results.

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, in the absence of additional factors. 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.

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).

The loans in the cover pool may be interlinked on multiple layers: Multiple loans to different borrowers backed by the same property and multiple loans to the same borrower backed by different properties. To fully capture credit risk in the cover pool, the issuer provided us with Risk Group information to aggregate the loan-by-loan data. Risk Groups combine all loans to the same borrowers or backed by the same property. Previously, we aggregated the data at the borrower level.

Following data reporting changes after an update in the issuer data systems, we base our effective LTV (ELTV) ratios in the default analysis (the WAFF) on 100% of the current LTV (CLTV) ratios, while we previously based the ELTV ratios on a combination of original LTV ratios (80%) and CLTV ratios (20%). The CLTV calculation incorporates our valuation haircuts.

The main determinant of the credit results in this portfolio is a large proportion (57%) of constant annuity loans, which attract a higher base foreclosure frequency to reflect a potential payment shock and a relatively high share of loans to self-employed borrowers (17%). Furthermore, the exposure to residential loans in the West of Finland (44%) exceeds our regional concentration limit of 35% and attracts a 20% increase to their base foreclosure frequency on the value exceeding the limit. At the same time, the relatively low weighted-average LTV ratios benefit our credit analysis results (see table 4).

At a 'AAA' level of stress, the WAFF is 8.96% (12.60% in June 2021) and the WALS is 14.50% (18.63% previously). The portfolio's WAFF improved mainly due to a combination of lower ELTV ratios and lower share of constant annuity loans. Due to adjustments in the issuer's updated reporting system, we captured a higher share of interest-only loans and loans granted on properties for buy-to-let purposes. Both factors have partially offset the above positive effect on our default assumption.

The lower WALS primarily reflects the cover pool's lower LTV ratios. Also, more than a third of the properties registered in the cover pool benefit from full valuation. Therefore, we no longer apply our 5% valuation adjustment on

those property values. This positive effect was counterbalanced by the revision of our overvaluation assumption of the Finnish residential real estate market (see "Asset Price Risks: Inflated Property Values Mean Higher Loss Assumptions In European RMBS And Covered Bonds," published on March 21, 2022) and by the higher share of properties attracting a jumbo adjustment in our aggregated pool.

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 the Finnish residential properties slightly undervalued. However, the extent of undervaluation has decreased since our last analysis. We currently incorporate an overvaluation of 1.10% in property valuations, compared with 2.23% in June 2021.

The combination of the lower foreclosure frequency and loss severity as the measure of the cover pool's overall credit quality (credit coverage: WAFF x WALS) has decreased to 1.30% from 2.35% previously.

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 of principal on the legal final maturity. We analyze the cash flows under our 'AAA' credit stresses, as well as under liquidity and interest rate stresses. We also run different default timing and prepayment patterns. The program is exposed to structural asset-liability mismatch risk because its features do not fully address the mismatches in its asset-liability profile. To address this market risk, our model simulates a stressed sale of assets whenever a liquidity gap occurs in our analysis. The discount applied for the assets in the cover pool is 425 basis points, on top of the stressed interest rate at the time of the shortfall. This discount is a function of the nature of the assets.

The outstanding covered bonds include a one-year maturity extension; we have rated the bonds to the legal final maturity date.

SPMB's outstanding issuances pay a fixed interest rate. To mitigate interest rate risk arising from the floating-rate assets, the issuer has entered swap agreements. We consider these hedges in our cash flow analysis (see "Counterparty risk").

Our 'AAA' credit risk shows the overcollateralization commensurate with our credit risk assessment. Our 'AAA' credit risk metric includes stressed assumptions on asset default and recovery rates, stressed interest rates and transaction costs, commingling risk, and the liability profile, assuming no asset-liability mismatch. This measure has increased to 13.45% as of March 31, 2023, from 6.89% in Sept. 30, 2021, mainly due to the shrinking excess spread in the program. All covered bonds pay a fixed interest rate and are swapped into variable rate payments. Rapidly increasing interest rates since mid-2022 led to a significant 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 is the interest portion, and the remaining part is 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 in line with recent market rates. Therefore, the difference between income on the assets and payment on the covered bonds (excess spread) is decreasing in the current 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.

Positive factors that mitigated these increased interest payments on the bonds relative to income on the assets, are lower credit coverage and lower commingling risk. The latter results from two changes: First, a short-term substitute asset led to relatively high commingling risk in the previous cover pool analysis. Second, we have updated our assumption on the amount at risk and sized a half-month of collection, while in the previous analysis, we sized two months' inflows as commingling risk.

In addition to 'AAA' credit risk, our target credit enhancement (TCE) also includes the additional credit enhancement that we expect is required to refinance the cover pool in a stressed environment.

As of March 31, 2023, the TCE increased to 30.45% from 22.50% in September 2021. In addition to lower excess spread in the program, the TCE also increased because the short-term liquidity arising from the substitute assets had a positive impact on the TCE in our previous analysis. On the other hand, our revised constant prepayment rate assumption, which we increased to 5% from 4%, mitigated the increase in TCE.

Because we consider an active secondary market exists for the cover pool assets, the program can potentially benefit from up to four notches of collateral-based uplift above the JRL under our covered bonds criteria. The program needs only one notch to reach the 'AAA' rating, therefore three notches of collateral-based uplift remain unused. Considering our counterparty risk criteria, these three unused notches decrease to one (see "Swaps").

Based on information as of March 31, 2023, the available credit enhancement is 49.66% and exceeds the required credit enhancement of 17.70% for the covered bonds to achieve 'AAA' ratings. This corresponds to the coverage of 'AAA' credit risk and 25% of the refinancing costs. It also covers the credit enhancement commensurate with one unused notch of uplift (21.95%) and therefore, supports our stable outlook on the 'AAA' covered bond ratings.

Liquidity risk

We do not adjust for liquidity risk because the program benefits from a one-year maturity extension due to the covered bonds' soft-bullet redemption profile, which structurally mitigates liquidity risk.

Overcollateralization commitment

The issuer has published on its website an overcollateralization commitment that is in line with our criteria. Therefore, we do not adjust the collateral support uplift for lack of committed overcollateralization.

Table 3

Cover pool composition

	As of March 31, 2023		As of Sept. 30, 2021	
Asset type	**Value (bil. €)**	**Percentage of cover pool**	**Value (bil. €)**	**Percentage of cover pool**
Residential mortgages	1.95	100.00	2.24	97.40
Substitute assets	0.00	0.00	0.06	2.60
Total	1.95	100.00	2.30	100.00

Table 4

Key credit metrics

	As of Dec. 31, 2022	As of June 30, 2021
Weighted-average effective LTV ratio (%)*	54.28	64.79
Weighted-average current LTV ratio (%)	51.32	54.82
Weighted-average loan seasoning (months)§	51.17	44.25
Balance of loans in arrears (%)	0.07	0.01
Self-employed borrowers (%)	17.43	17.10
Constant annuity loans (%)	55.79	59.20
Jumbo valuations (%)	43.47	34.23
Credit analysis results:		
Weighted-average foreclosure frequency (%)	8.96	12.60
Weighted-average loss severity (%)	14.50	18.63
'AAA' credit risk (%)	13.45&	4.42

*Current analysis: 100% CLTV, previous analysis: 80% OLTV and 20% CLTV. §Seasoning refers to the elapsed loan term. LTV--Loan-to-value. Data as of March 31, 2023.

Table 5

LTV ratios

	As of Dec 31. 2022	As of June 30, 2021
Effective LTV ratios (%)*	**Percentage of pool**	
0-60	59.51	37.88
60-70	25.53	23.54
70-80	10.01	15.21
80-90	4.44	20.24
90-100	0.48	1.45
Above 100	0.04	1.68
Weighted-average effective LTV ratios	54.28	64.79
Current LTV ratios (%)*		
0-60	65.15	54.85
60-70	32.32	38.62
70-80	2.51	4.45
80-90	0	0.89
90-100	0	0.5
Above 100	0.01	0.68
Weighted-average current LTV ratios	51.32	54.82

*After S&P Global Ratings' adjustments; Current analysis: 100% CLTV, previous analysis: 80% OLTV and 20% CLTV. LTV--Loan-to-value.

Table 6

Loan seasoning distribution*

	Percentage of portfolio	
	As of Dec. 31, 2022	As of June 30, 2021
0-24	27.65	30.65
24-48	24.49	34.80

Table 6

Loan seasoning distribution* (cont.)

	Percentage of portfolio	
	As of Dec. 31, 2022	**As of June 30, 2021**
48-60	14.89	12.00
60-72	11.23	6.69
72-84	7.01	4.34
84-96	4.51	1.71
96-108	1.77	1.57
108-120	1.15	2.66
More than 120	7.31	5.57
Weighted-average loan seasoning (months)	51.17	44.35

*Seasoning refers to the elapsed loan term.

Table 7

Geographic distribution of loan assets

	Percentage of cover pool	
Region of Finland	**As of Dec. 31, 2022**	**As of June 30, 2021**
South Finland	36.20	35.36
West Finland	43.55	45.87
Oulun	7.64	7.27
East Finland	9.55	8.60
Lapland	3.04	2.90
Aland	0.01	0.00
Total	100.00	100.00

Table 8

Collateral uplift metrics

	As of March 31, 2023	As of Sept. 30, 2021
Asset WAM (years)	11.13	9.13
Liability WAM (years)	4.88	4.31
Available credit enhancement	49.66	15.22
Required credit enhancement for coverage of 'AAA' credit risk	13.45	6.89
Required credit enhancement for first notch of collateral uplift (%)	17.70	10.79
Required credit enhancement for second notch of collateral uplift (%)	21.95	14.70
Required credit enhancement for third notch of collateral uplift (%)	26.20	18.60
Target credit enhancement for maximum uplift (%)	30.45	22.50
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	N	N
Collateral support uplift (notches)	4	4

WAM--Weighted-average maturity.

Counterparty risk

We analyze counterparty risk by applying our counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on March 8, 2019). We have identified that the program is exposed to several counterparty risks. However, they are either mitigated through documentation or we have considered them in our modeling. Accordingly, we consider that they do not constrain our covered bond ratings.

Bank account provider

Borrowers make their mortgage payments into an account in the issuer's name with the Central Bank of Savings Banks Finland. These payments are only registered as part of the cover pool after the issuer's insolvency. While this mechanism protects mortgage payments post issuer default, funds standing or paid in the collection accounts before issuer insolvency would be exposed to commingling risk. This is because these collections are not segregated in the retained cover pool. We considered this risk in our analysis by assuming that half a month of collections are lost. We previously modeled two months' commingling loss.

Swaps

The issuer has entered bond swap agreements with Nordea Bank Abp to mitigate interest rate risk between the floating-rate assets and the fixed-rate covered bonds.

To derive the maximum potential rating on the covered bonds under our counterparty criteria, we consider various factors, including whether the counterparties are related to the issuer, the termination payments' seniority, replacement triggers, and the collateral posting framework. The swap counterparty is unrelated to the issuer, and we understand that termination costs are not subordinated to payments on the covered bonds. We consider the swap exposures as concentrated, under our counterparty risk criteria.

According to the swap documentation, Nordea Bank has committed to replacing itself within 60 calendar days if its long-term rating falls below 'A'. As this counterparty is unrelated to the issuer, we map the trigger to its corresponding RCR. We consider the collateral framework as moderate.

The collateral framework assessments, the concentrations to the swap counterparty, and the replacement trigger, combined with the current RRL on the issuer ('a+'), support a maximum potential rating of 'AAA' under our counterparty risk assessment. However, if we were to lower our long-term ICR on the issuer by more than one notch, we would also lower our ratings on the covered bonds, all else being equal. As a result, the 'AAA' rating on this program currently benefits from one unused notch of uplift.

Sovereign default risk

Under our structured finance sovereign risk criteria, covered bonds backed by residential mortgage collateral, issued in a jurisdiction that is within a monetary union that include structural coverage of refinancing needs over a 12-month period exhibit low sensitivity to sovereign risk. As a result, we can rate these covered bonds up to five notches above the sovereign rating (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published Jan. 30, 2019). Given our 'AA+' long-term sovereign rating on Finland, sovereign risk does not limit the ratings on the covered bonds.

Environmental, Social, And Governance (ESG) Factors

ESG credit indicators

E-1	**E-2**	E-3	E-4	E-5		S-1	**S-2**	S-3	S-4	S-5		G-1	**G-2**	G-3	G-4	G-5

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

ESG factors 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 our credit analysis. The issuer commits to maintain an overcollateralization level in the program to maintain the rating on the covered bonds. Furthermore, the bonds' soft-bullet repayment structure mitigates liquidity risk.

Related Criteria

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- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
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- Criteria - Structured Finance - Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
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- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Covered Bond Insights Q3 2023: Strong Issuance Is Here To Stay, June 29, 2023
- Covered Bonds Outlook Midyear 2023: Rising Interest Rates Will Test Asset Performance, July 19, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Covered Bonds Outlook 2023: Sailing Through Choppy Waters, Dec. 6, 2022

- Central Bank of Savings Banks Finland PLC, Aug. 3, 2022
- Finland 'AA+/A-1+' Ratings Affirmed; Outlook Stable, July 1, 2022
- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- Asset Price Risks: Inflated Property Values Mean Higher Loss Assumptions In European RMBS And Covered Bonds, March 21, 2022
- Norwegian And Finnish Covered Bond Market Insights 2022, Jan. 31, 2022
- Glossary Of Covered Bond Terms, April 27, 2018

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