STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Presale:

The Mortgage Society of Finland (Mortgage Covered Bond Program)

Primary Credit Analyst:
Tom M Deex, London (44) 20-7176-3603; tom.deex@standardandpoors.com

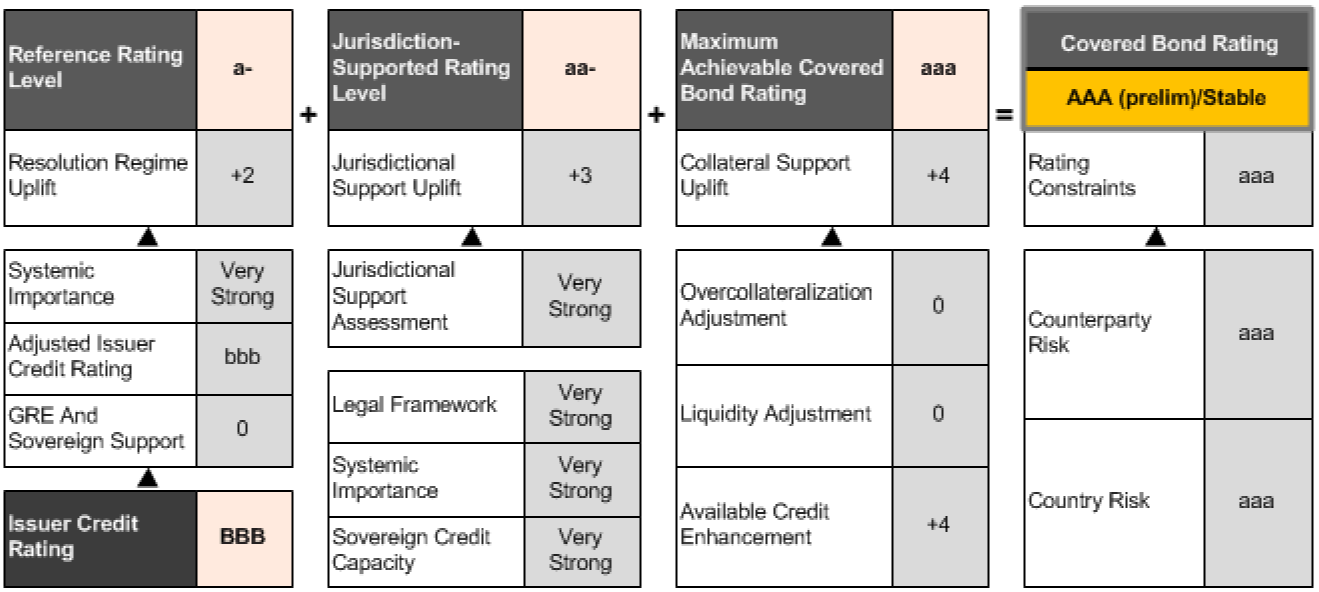
Secondary Contact:
Marta Escutia, Madrid (34) 91 788 7225; marta.escutia@standardandpoors.com

Table Of Contents

Presale:

The Mortgage Society of Finland (Mortgage Covered Bond Program)

This presale report is based on information as of March 24, 2016. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.



Major Rating Factors

Strengths

- The cover pool comprises well-seasoned loans with low loan-to-value (LTV) ratios.
- The available credit enhancement exceeds what is required to achieve a 'AAA' rating.

Weaknesses

- Due to the high level of floating-rate mortgages included in the cover pool, any increase in interest rates may lead to a rise in arrears.
- Competition in the mortgage market may lead to compression of the margins earned on mortgage loans, resulting in lower cash flows available to support the payments due on the covered bonds.

Outlook: Stable

The stable outlook reflects the fact that the ratings on the covered bonds benefit from one unused notch of collateral-based uplift under our covered bonds criteria (see "Covered Bonds Criteria," published on Dec. 9, 2014 and

"Methodology And Assumptions For Analyzing Mortgage Collateral In Finnish And Norwegian Covered Bonds," published on Dec. 10, 2014). Therefore, if we were to lower our long-term issuer credit rating (ICR) on The Mortgage Society of Finland (Suomen Hypoteekkiyhdistys, or Hypo), we would not necessarily lower our ratings on the covered bonds. We could downgrade the covered bonds if the available credit enhancement were to decrease below the overcollateralization commensurate with their maximum achievable ratings.

Rationale

On March 31, 2016, Standard & Poor's Ratings Services assigned its preliminary rating of 'AAA' to The Mortgage Society of Finland's mortgage covered bond program and related issuances (see "Mortgage Society of Finland Covered Bond Program Assigned Preliminary 'AAA' Rating; Outlook Stable," published today on RatingsDirect).

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 Hypo's new program and the Finnish legislative covered bond framework, we have concluded that the assets in the cover pool are isolated from the issuer's insolvency risk. The asset isolation allows us to rate the covered bond program at a higher rating level than the long-term ICR on Hypo.

We conducted a review of Hypo's mortgage operations, which we view as prudent. We believe there are sufficiently prudent and effective underwriting and servicing procedures in place to support our ratings on the covered bonds.

Under our covered bonds criteria, we first assess the reference rating level (RRL), which for Hypo's covered bonds is 'a-'. This reflects the ICR on Hypo, minus any notches of uplift for extraordinary sovereign support incorporated in the ICR (in this case, none), plus two notches of uplift to reflect our view of the protection offered to covered bondholders by the bail-in provisions specified under the EU's Bank Recovery and Resolution Directive (BRRD), which Finland has implemented.

We then consider the likelihood of jurisdictional support, which for mortgage programs in Finland we assess as very strong. This leads us to apply three notches of uplift from the RRL to determine the jurisdiction-supported rating level (JRL), which we therefore assess as 'aa-'.

The covered bonds are eligible for four notches of collateral-based uplift from the JRL. We expect Hypo to provide a public statement stating their intention to maintain a level of overcollateralization that is consistent with the current rating. We consider that the soft-bullet structure of the planned issuance covers liquidity risk.

Our credit analysis is based on a provisional cover pool as of January 2016. The program's underlying assets comprise €366.7 million of Finnish residential mortgage loans (51.7%) and loans to housing companies (48.3%). Our measure of the weighted-average foreclosure frequency (WAFF; representing the level of defaults) stands at 24.05%, and the weighted-average loss severity (WALS; our measure of possible losses upon default) at 11.06%, based on a 'AAA' stress level.

We performed a cash flow analysis of the program's proposed €250 million, five-year soft-bullet covered bond. The available credit enhancement of 48.92% exceeds the target credit enhancement of 20.23%.

It is our understanding that the relevant documentation will be updated to include replacement language that is consistent with our criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

We assess country risk by applying our nonsovereign ratings criteria (see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015). In light of our 'AA+' sovereign rating on Finland, and the country's membership in the eurozone, country risk would not constrain our 'AAA' ratings on the covered bonds.

Program Description

Table 1

Program Overview*	
Jurisdiction	Finland
Year of first issuance	2016
Covered bond type	Legislation-enabled
Preliminary covered bonds (mil. €)	250
Redemption profile	Soft bullet
Underlying assets	Residential mortgages and housing association loans
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	20.23
Available credit enhancement (%)	48.92
Collateral support uplift	4
Unused notches for collateral support	1
Total unused notches	1

*Based on data as of January 2016.

Hypo has established a €1.5 billion mortgage covered bond program in order to further diversify their sources of funding. The covered bonds issued from the program will be secured by a cover pool of Finnish residential mortgage loans and loans to Finnish housing companies.

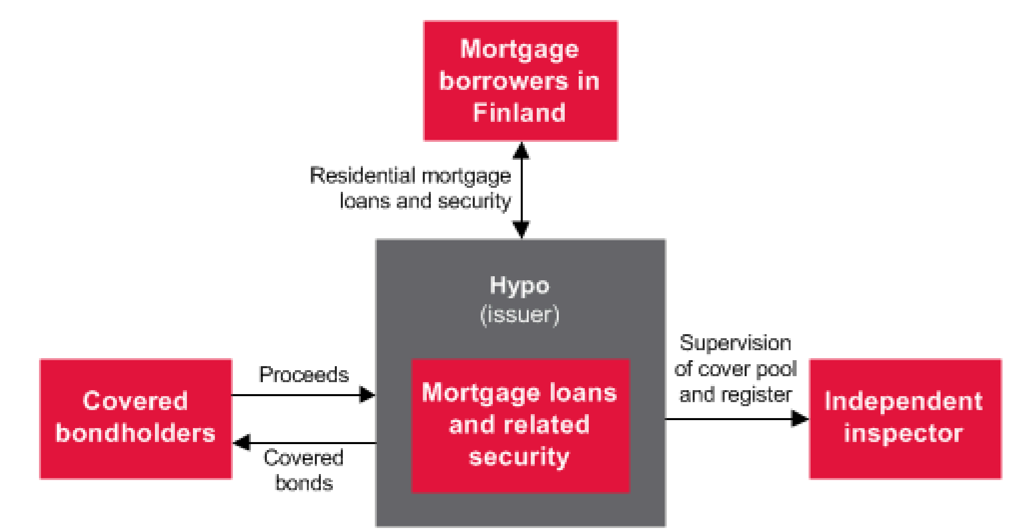
Hypo is a licensed credit institution and mutual company founded in 1860, with the sole purpose of granting long-term loans against mortgage or other safeguarding collateral. The customers of the bank are members of the society as long as they have loans outstanding and no arrears. The bank is only active in the Helsinki metropolitan area, the Uusimaa region, and in specified growth centers in Finland. Hypo operates solely from its headquarters in Helsinki and services its clients through online and telephone banking.

The new program's covered bonds will be the issuer's direct unconditional and unsubordinated debt obligations and will rank pari passu among themselves. The covered bonds will be secured on a cover pool of euro-denominated

Finnish residential mortgage loans and loans to housing companies. The planned issuance is also denominated in euros. The covered bondholders have a priority claim on the cover pool's assets.

Chart 1

The Mortgage Society of Finland Covered Bond Program
Transaction Structure



© Standard & Poor's 2016.

Table 2

Hypo Covered Bond Program Participants

Role	Name	Rating	Rating dependency
Issuer	The Mortgage Society of Finland	BBB/Negative/A-3	Yes
Originator	The Mortgage Society of Finland	BBB/Negative/A-3	No
Bank Account	Nordea Bank Finland PLC	AA-/Negative/A-1+	Yes
Bank Account	Danske Bank A/S	A/Stable/A-1	Yes
Bank Account	Pohjola Bank PLC	AA-/Negative/A-1+	Yes
Swap Counterparty	Nordea Bank AB	AA-/Negative/A-1+	Yes

Rating Analysis

Legal and regulatory risks

In our legal risk analysis, we applied our European legal criteria (see "Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," published on Sept. 13, 2013). The Finnish Covered Bond Act of 2010 sets out the legal framework for issuing Finnish covered bonds. In our opinion, the Finnish covered bond legal 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 Hypo.

If the issuer defaults, bondholders can initiate regular insolvency proceedings. In addition, under the Covered Bond

Act, they have a preferential claim to a cover pool. Under the legislation, the cover pool can comprise residential mortgage loans, commercial mortgage loans, public-sector loans, and substitute assets from European Economic Area countries.

Under the legal framework, the cover pool's assets must be registered in the issuer's cover pool to be isolated from the issuer's other assets in the event of insolvency. The issuer must report the information in the register to the Finnish regulator quarterly. 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 Finnish regulator would appoint a special cover pool administrator to supervise the covered bondholders' interests. If necessary, the administrator can sell assets or accelerate the payment of the covered bonds if it considers this to be in the bondholders' best interests, subject to Finnish regulatory 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 Covered Bond Act, the issuer's bankruptcy would not result in the covered bonds' early redemption or the suspension of payments to bondholders. Accordingly, we rate the covered bonds on the basis of their legal final maturity.

Operational and administrative risks

Our analysis of operational and administrative risks follows the guidelines in our criteria (see "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015). Hypo's credit underwriting policy consists of three main documents: General Terms (approved by the Supervisory Board), Credit Policy (approved by the Board of Directors), and the Employee Authorization (approved by a steering group). We view Hypo's underwriting criteria as prudent.

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 we believe that the mortgage assets in Hypo's cover pool do not have product features that would materially limit the range of available replacement cover pool managers or servicers.

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

Hypo's covered bonds will be subject to refinancing risk due to mismatches between the maturities of the mortgage assets in the cover pool and the covered bonds. As a result, we link the covered bond rating to the issuer's creditworthiness and determine the maximum achievable covered bond rating above the long-term ICR by analyzing the factors set out in our criteria.

Hypo is domiciled in Finland, which is part of the eurozone. We consider that Finland has implemented the bail-in provisions specified under the Bank Recovery and Resolution Directive (BRRD), and our analysis gives credit to the adoption of BRRD. Therefore, under our covered bonds criteria, we assess the reference rating level (RRL) as 'a-'.

Jurisdictional support analysis

Under our analysis of jurisdictional support in our covered bonds criteria, we determine a JRL, which is our assessment of the creditworthiness of a covered bond program once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

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 (see "Assessments For Jurisdictional Support According To Our Covered Bond Criteria," published on Dec. 22, 2015). 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 for Hypo's mortgage covered bonds of 'aa-'. The JRL cannot exceed the rating on the sovereign providing the support to the covered bond, which in this case is 'AA+'.

Collateral support analysis

We based our credit analysis on loan-by-loan data as of Jan. 8, 2016. The pool comprises seasoned loans that are secured on Finnish residential properties and housing companies.

The cover pool includes loans granted to borrowers with different loan parts and, in some occasions, backed by different properties. These loans currently represent on average 39% of the property's current value. Finnish property prices have risen since 1996 but have stabilized in the past two years. House prices and income levels have tended to move in tandem, suggesting that the housing market is not overvalued.

The weighted-average seasoning of the portfolio is around 3.5 years and the interest rate on 98% of the loans is floating. The weighted average loan-to-value for the pool is 38.44%, according to our analysis.

We assess the credit quality of a typical residential mortgage cover pool by estimating the credit risk associated with each loan in the pool. The analysis of the residential mortgage loans is based on "Methodology And Assumptions For Analyzing Mortgage Collateral In Finnish And Norwegian Covered Bonds," published Dec 10, 2014. The analysis of the housing company loans is based on "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published Mar 31, 2015.

We then calculate the aggregate risk to assess the overall credit quality of the cover pool. In order to quantify the potential losses associated with the entire pool, we weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance. The product of the weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged. The WAFF and WALS for the pool are 24.05% and 11.06%, respectively.

Our analysis of the planned issuance indicates that the cash flows from the cover pool assets would be sufficient, at the given rating level, to make timely payment of interest and ultimate payment of principal on the legal final maturity.

Hypo's planned issuance is intended to pay a fixed rate of interest. In order to mitigate interest rate risk arising from the largely floating-rate assets, the issuer will enter into a swap agreement.

The available credit enhancement of 48.92% is sufficient to cover the target credit enhancement of 20.23%.

Table 3

Hypo Covered Bond Program Cover Pool Composition

	--As of Jan. 8 2016--	
Asset type	**Value (mil. €)**	**Percentage of cover pool (%)**
Residential mortgages	185,417,774	50.57
Housing association loans	181,241,756	49.43
Total	366,659,530	100

Table 4

Hypo Covered Bond Program Key Credit Metrics

	As of Jan. 8, 2016
Weighted-average Original LTV ratio (%)	45.79
Weighted-average Current LTV ratio (%)	38.44
Weighted-average loan seasoning (months)*	42.45
Balance of loans in arrears (%)	3.96
Buy-to-let loans (%)	2.05
Interest-only loans (%)	24.89
Credit analysis results:	
Weighted-average foreclosure frequency (WAFF; %)	24.05
Weighted-average loss severity (WALS; %)	11.06
AAA credit risk (%)	3.46
Country averages:	
WAFF (%)	20.91
WALS (%)	14.13
AAA credit risk (%)	10.9

*Seasoning refers to the elapsed loan term.

Table 5

Hypo Covered Bond Program LTV Ratios

	As of Jan. 8, 2016
Original LTV (%)	**Percentage of cover pool (%)**
0-10	6.34
10-20	8.55
20-30	11.93
30-40	12.87
40-50	17.56
50-60	15.35
60-70	27.39
70-80	0.00
80-90	0.00
>90	0.00
Weighted-average LTV ratios	45.79

1606778 | 301093205

Table 5

Hypo Covered Bond Program LTV Ratios (cont.)

Current LTV (%)	Percentage of cover pool (%)
0-10	14.58
10-20	17.90
20-30	17.09
30-40	10.24
40-50	7.77
50-60	6.56
60-70	6.56
70-80	6.41
80-90	7.73
>90	5.16
Weighted-average LTV ratios	38.44

LTV--Loan to value.

Table 6

Hypo Covered Bond Program Loan Seasoning Distribution*

	As of Jan. 8, 2016
	Percentage of portfolio (%)
0-60	77.65
60-72	3.78
72-84	4.96
84-96	4.20
96-108	2.81
108-120	2.17
More than 120	4.43
Weighted-average loan seasoning (months)	42.45

*Seasoning refers to the elapsed loan term.

Table 7

Hypo Covered Bond Program Geographic Distribution Of Loan Assets

	As of Jan. 8, 2016
Top five concentrations	Percentage of cover pool (%)
East	0.62
Oulu	2.66
West	15.63
South	81.04
Lapland	0.05
Total	100

Table 8

Hypo Covered Bond Program Collateral Uplift Metrics

	As of Jan. 8, 2016
Asset WAM (years)	9.06
Liability WAM (years)	5
Available credit enhancement	48.92
Target credit enhancement for maximum uplift (%)	20.23
Potential collateral-based uplift (notches)	4
Adjustment for liquidity (Y/N)	N
Adjustment for committed overcollateralization (Y/N)	N
Collateral support uplift (notches)	4

WAM--Weighted-average maturity.

Counterparty risk

We have identified several counterparty risks to which the planned issuance is exposed. However, it is our understanding that these risks will be mitigated by the inclusion of replacement language consistent with our criteria (see "Counterparty Risk Framework Methodology And Assumptions," published June 25, 2013).

Bank account provider

Payments from borrowers are made into a number of external bank accounts. The accounts benefit from replacement language consistent with our counterparty criteria.

Swaps

The issuer intends to enter into a swap agreement to support the planned issuance. We expect the swap documentation to include replacement language consistent with our criteria.

Country risk

We assess country risk by applying our ratings above the sovereign criteria (see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015). In light of the long-term 'AA+' sovereign rating on Finland and the country's eurozone membership, country risk does not constrain our 'AAA' ratings on the covered bonds. Our 'AA+' sovereign rating caps the achievable rating on the transaction based on the JRL. However, because Hypo is based in eurozone country, the sovereign rating cap on the covered bonds is four notches higher than the rating on the sovereign.

Related Criteria And Research

Related criteria

- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Covered Bonds Criteria, Dec. 9, 2014

- Methodology And Assumptions For Analyzing Mortgage Collateral In Finnish And Norwegian Covered Bonds, Dec. 10, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013

Related research

- Banking Industry Country Risk Assessment: Finland, Jan. 25, 2016
- Global Covered Bond Characteristics And Rating Summary Q4 2015, Dec. 29, 2015
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Dec. 22, 2015
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Dec. 22, 2015
- The Mortgage Society of Finland, Sept. 17, 2015

Additional Contact:
Covered Bonds Surveillance; CoveredBondSurveillance@standardandpoors.com

Copyright © 2016 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.