

The Mortgage Society of Finland Covered Bonds Outlook Revised To Negative; 'AAA' Ratings Affirmed

June 3, 2020

Overview

- On May 19, 2020, we revised the outlook on The Mortgage Society of Finland ("Suomen Hypoteekkiyhdistys", or Hypo) to negative from stable on deepening COVID-19 downside risks, the latter resulting in a revision of the economic risk trend for Finland's Banking Industry Country Risk (BICRA) to negative, and affirmed our 'BBB/A-2' long- and short-term credit ratings.
- The ratings on the covered bonds have no unused notches of ratings uplift. This means that if we were to lower our long-term issuer credit rating on Hypo by one notch, we would lower our ratings on the covered bonds, all else being equal.
- We are therefore revising the outlook on Hypo's covered bond program and related issuances to negative from stable.
- At the same time, we have affirmed our 'AAA' ratings on the covered bond program and related issuances.

PRIMARY CREDIT ANALYST

Natalie Swiderek
Madrid
(34) 91-788-7223
natalie.swiderek
@spglobal.com

MADRID (S&P Global Ratings) June 3, 2020--S&P Global Ratings today revised its outlook on The Mortgage Society of Finland ("Suomen Hypoteekkiyhdistys", or Hypo) covered bonds to negative from stable. At the same time, we have affirmed our 'AAA' ratings on the covered bond program and related issuances.

Today's rating actions follow the May 19, 2020, revision to negative from stable of the outlook on Hypo (see "Seven Finnish Banks Outlooks Revised To Negative On Deepening COVID-19 Downside Risks").

Under our covered bonds criteria, the issuer credit rating on Hypo is the starting point from which we determine any potential notches of uplift to arrive at the ratings on the covered bonds.

Accordingly the 'AAA' ratings reflect our rating reference level (RRL) of 'a-', the jurisdiction-supported rating level (JRL) of 'aa-' and the available overcollateralization, which together with the covered bonds' soft bullet maturity and Hypo's publicly stated commitment to maintain overcollateralization consistent with the current rating, allows for four notches of collateral based uplift above the JRL. The covered bonds make use of three notches of uplift to achieve a 'AAA' rating. There are no unused notches of ratings uplift in this program as a one-notch downgrade of our ICR on Hypo would trigger a downgrade of its covered bonds by application of our counterparty risk criteria, all else being equal.

The program benefits from swaps with Nordea Bank AB, Swedbank AB, Danske Bank A/S, and

The Mortgage Society of Finland Covered Bonds Outlook Revised To Negative; 'AAA' Ratings Affirmed

BNP Paribas S.A., to swap the variable interest earned on the assets to fixed interest payable on the covered bonds. To derive the maximum potential rating on the covered bonds, the counterparty risk criteria, consider various factors, including Hypo's RRL, whether the counterparties are related to Hypo, the concentration exposures to the counterparties, the seniority of termination payments, the replacement commitment, and the collateral posting framework. All swap counterparties are unrelated to Hypo, the counterparty exposure is concentrated (over 25% of exposure is to one counterparty), and swap termination payments rank pari passu with covered bond payments. As per the swap documents, Nordea, Swedbank, and Danske Bank have committed to replacing themselves if their resolution counterparty rating (RCR) falls below 'A-'. Furthermore, if we lower our rating on a swap counterparty below 'A-', the counterparties have each committed to post collateral sufficient to cover Hypo's exposure to that counterparty, plus certain volatility risks in the swap value. We categorize the current collateral-posting framework for the counterparties in the derivative contracts as strong. Although BNP Paribas' commitments are similar, the rating trigger has been set at an RCR of 'A+' and the collateral-posting framework in the derivative contract is categorized as moderate.

The collateral framework assessments, combined with Hypo's current RRL ('a-') and the different replacement triggers, support a maximum potential rating of 'AAA' under our counterparty risk criteria. However, if we were to lower our long-term ICR on Hypo by one notch, we would also lower our ratings on the covered bonds, all else being equal. This is because the resulting lower RRL of Hypo would no longer support a maximum potential rating of 'AAA' under our counterparty risk criteria for the swaps with Nordea, Swedbank, and Danske Bank, all else being equal. As a result, the covered bonds do not benefit from unused notches of uplift.

Therefore, we revised to negative from stable the outlook on the covered bonds to reflect the negative outlook on Hypo. At the same time, we have affirmed our 'AAA' ratings on the covered bond program and related issuances.

The ratings on the covered bonds are not constrained by counterparty, sovereign, legal, and operational risks, in our view.

Related Criteria

- 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 | General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010

The Mortgage Society of Finland Covered Bonds Outlook Revised To Negative; 'AAA' Ratings Affirmed

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Seven Finnish Banks Outlooks Revised To Negative On Deepening COVID-19 Downside Risks, May 19, 2020
- Transaction Update: The Mortgage Society of Finland (Mortgage Covered Bond Program), May 7, 2020
- Global Covered Bond Characteristics And Rating Summary Q1 2020, March 31, 2020
- Global Covered Bond insights Q1 2020, March 31, 2020
- Global Covered Bonds: Assessing The Credit Effects Of COVID-19, March 25, 2020
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, March 3, 2020
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, March 3, 2020
- S&P Global Ratings' Covered Bonds Primer, June 20, 2019
- Glossary Of Covered Bond Terms, April 27, 2018

Copyright © 2020 by Standard & Poor's Financial Services LLC. 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. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

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 acknowledgment 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 non-public 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 (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.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.