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Transaction Update: The Mortgage Society of Finland (Mortgage Covered Bond Program)

€2 Billion Covered Bond Program

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Ratings Detail

Reference Rating Level	a-
Resolution Regime Uplift	+2
Systemic Importance	Very Strong
Resolution Counterparty Rating	Not applicable
Issuer Credit Rating	BBB

+

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
Collateral Support Uplift	+4
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

Major Rating Factors

Strengths

- The cover pool comprises mortgage loans with low loan-to-value (LTV) ratios (cover pool LTV ratio of about 31%), which is lower than other specialized mortgage lenders in the Nordics.
- The program benefits from a public commitment to maintain a level of overcollateralization that is consistent with a 'AAA' rating.
- Liquidity risk is mitigated by the bonds' soft-bullet repayment profile.

Weaknesses

- The cover pool's relatively low weighted-average seasoning compared with other Finnish covered bond issuers we rate.
- About 69% of the pool comprises housing associations, which we view as a higher risk to the program's creditworthiness than residential mortgages.

Outlook: Stable

S&P Global Ratings' stable outlook on its ratings on the mortgage covered bonds issued by The Mortgage Society of Finland ("Suomen Hypoteekkiyhdistys", or Hypo) reflects the stable outlook on its long-term issuer credit rating (ICR, BBB/Stable/A-2). Resulting from the application of our counterparty risk criteria, there are no unused notches of ratings uplift in this program. This means that if we were to lower our long-term ICR on Hypo by one notch, we would also lower our ratings on the covered bonds by application of our counterparty risk criteria, all else being equal.

Rationale

We are publishing this transaction update following our periodic review of Hypo's mortgage covered bond program and related issuances.

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.

Accordingly, we performed a legal and regulatory review, an operational risk review, a resolution regime analysis, a jurisdictional support analysis, a collateral support analysis, and a counterparty and sovereign risk analysis.

From our analysis of the legal and regulatory framework for Finnish covered bonds, we have concluded 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 allow us to rate the covered bond program higher than the long-term ICR on Hypo.

Based on our operational risk analysis, which covered a review of origination, underwriting, collection, and default management procedures, as well as cover pool management and administration, we conclude that the ratings on the covered bonds are not constrained by operational risk.

Under our resolution regime analysis, we determined a reference rating level (RRL) of 'a-'. This is because Hypo is domiciled in Finland, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD), and our very strong assessment of the systemic importance of mortgage covered bonds in Finland. These factors increase the likelihood that Hypo 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.

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

Our collateral support analysis determines to what extent the amount of available collateral further increases the covered bond's creditworthiness above the JRL of 'aa-'. As of April 30, 2022, the available overcollateralization of 26.68% exceeds the target credit enhancement of 21.75%, which means that the covered bonds are eligible for up to

four notches of collateral-based uplift. We do not reduce these four notches owing to Hypo's public statement committing to maintain a level of overcollateralization consistent with a 'AAA' rating, and because we consider that the covered bond's soft-bullet maturity mitigates liquidity risk for 180 days.

There are no rating constraints to the 'AAA' ratings relating to counterparty and sovereign risks.

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

Program Description

Table 1

Program Overview*	
Jurisdiction	Finland
Year of first issuance	2016
Covered bond type	Legislation-enabled
Covered bonds (mil. €)	1,600
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 (%)	21.75
Available credit enhancement (%)	26.68
Collateral support uplift	4
Unused notches for collateral support	0
Total unused notches	0

*Based on April 30, 2022 data.

In 2016, Hypo established a €1.5 billion debt issuance program to issue senior unsecured notes, subordinated debentures, and covered bonds. The covered bonds issued from the program are secured by a cover pool of Finnish residential mortgage loans and loans to Finnish housing associations. The program size was increased to €2 billion in June 2018.

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 active in Helsinki, southern Finland, and in specified growth centers in the rest of the country. Hypo operates solely from its headquarters in Helsinki and services its clients also through online and telephone banking.

The covered bonds under the program are the direct, unconditional, and unsubordinated debt obligations of the issuer and rank pari passu among themselves. Covered bond issuances are euro-denominated and secured by a cover pool of euro-denominated Finnish residential mortgage loans and loans to housing companies. We base our credit analysis on loan-by-loan data and cash flow data as of April 30, 2022. The cover pool composition and the loans' credit quality have remained stable since our previous review (see "Related Research").

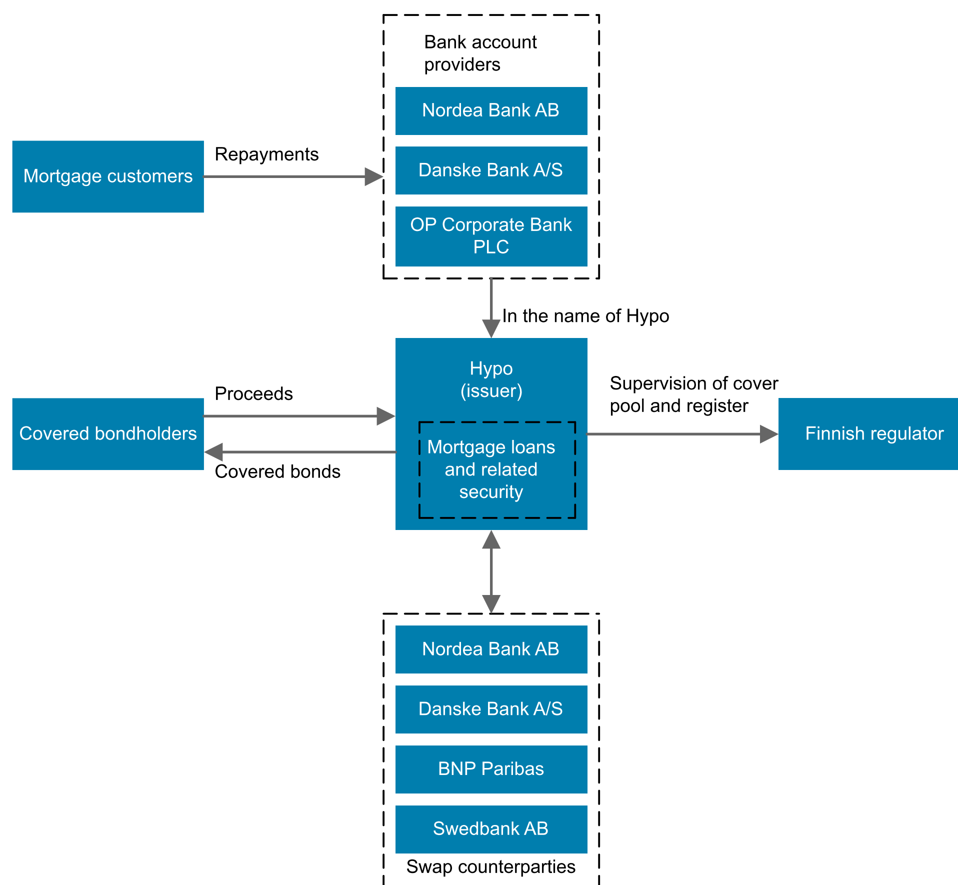

Table 2

Program Participants

Role	Name	Rating	Rating dependency
Issuer	The Mortgage Society of Finland	BBB/Stable/A-2	Yes
Originator	The Mortgage Society of Finland	BBB/Stable/A-2	No
Bank account	Nordea Bank Abp	AA-/Stable/A-1+	Yes
Bank account	Danske Bank A/S	A+/Negative/A-1	Yes
Bank account	OP Corporate Bank PLC	AA-/Stable/A-1+	Yes
Interest rate hedge provider	Nordea Bank Abp	AA-/Stable/A-1+	Yes
Interest rate hedge provider	Danske Bank A/S	A+/Negative/A-1	Yes
Interest rate hedge provider	BNP Paribas	A+/Stable/A-1	Yes
Interest rate hedge provider	Swedbank AB	A+/Stable/A-1	Yes

Rating Analysis

Legal and regulatory risks

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

Finland implemented the Covered Bond Directive into national legislation via the Covered Bond Act (151/2022; the CBA). The CBA entered into force on March 11, 2022, and will apply from July 8, 2022. The CBA will replace the Finnish Act on Mortgage Credit Bank Activity (688/2010; the MCBA).

We understand that any covered bonds issued under the MCBA can continue to be governed by the provisions effective on their issue date. From Hypo we understand that its outstanding issued covered bonds prior to July 8, 2022, will continue to be governed by the MCBA.

In our opinion, the MCBA and the CBA satisfy the relevant legal aspects of our covered bond criteria. We have concluded that the cover pool assets are effectively isolated for the benefit of covered bondholders. The protection of the assets and the continued management of the cover pool allows us to rate the covered bonds above the long-term ICR on Hypo.

Under both covered bond legislations, 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 their legal final maturity.

The MCBA and the CBA require issuers to have a license from the Finnish Financial Supervisory Authority (FIN-FSA) to issue covered bonds. Further, they 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 regularly report the information in the register to the FIN-FSA.

Both laws set out eligibility criteria for cover pool assets, which 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. Derivatives must also remain in force despite the issuer's bankruptcy, liquidation, or resolution.

Under the MCBA, issuers must have 2% overcollateralization on a net present value (NPV) basis, while from July 8, 2022, under the CBA the requirement is 2%, or 5% on an NPV basis if certain requirements of article 129 of the Capital Requirements Regulation are not fulfilled. Additionally, pursuant to the MCBA the total interest accrued on the cover assets during any successive 12-month period must suffice to cover interest due on the covered bonds and payments due to derivative counterparties.

Covered bonds with a 12-month maturity extension are allowed under both laws, but the CBA introduces a 180-day liquidity requirement whereby the cover pool must include sufficient substitute assets to meet the maximum net outflow connected to the covered bonds during the upcoming 180-day period. We understand that in calculating the net outflow related to the covered bonds, issuers may consider the extension of the maturity of the covered bonds.

If the issuer were to become insolvent, the FIN-FSA would appoint a supervisor to supervise the 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 covered bondholders' interests. 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 into derivative transactions, and secure liquidity in order to fulfil the obligations relating to the covered bonds. Under the MCBA the administrator, upon the demand or consent of the supervisor could accelerate the payment of the covered bonds if the cover tests cannot be fulfilled. We understand that under the CBA acceleration can only occur (upon the request or approval of the supervisor) if the overcollateralization requirements cannot be met. We consider this scenario to be ratings remote, as our credit and cash flow analysis accounts for the ability of the cover pool to service the payments on the covered bonds.

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

Under the MCBA, covered bondholders and derivative counterparties have recourse toward 70% of the residential properties' market value and 60% of commercial estate properties' market value. From July 8, 2022, under the CBA, this priority of payment right extends to the entire 100% of the 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.

Both the Finnish covered bond laws exclude set-off against cover pool assets and claw-back risk.

Operational and administrative risks

Hypo, with total assets of €3.2 billion and a loan portfolio of about €2.6 billion as of March 31, 2022, is a licensed bank and mutual company founded in 1860, with the sole purpose of home financing and housing in Finland. Hypo grants long-term loans to Finish households (31% of portfolio) and housing companies (67% of portfolio) solely against a mortgage or other safeguarding collateral. The remaining share are loans to housing investors. The bank originates its loans in the Helsinki metropolitan area, southern Finland, and specified growth areas in Finland. Hypo's sole physical branch is located in Helsinki. Its services are complemented through online and telephone banking.

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 Hypo's management group). We view Hypo's underwriting criteria as prudent, as reflected by the very low average LTV ratio of its loan book (34% as of March 31, 2021) and low levels of nonperforming loans--0.20% of the loan portfolio as of March 31, 2022--well below the average of peer banks.

In our opinion, there is no operational risk from the cover pool's management and loan origination that would constrain the covered bond ratings to the same level as the long-term ICR. Furthermore, 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.

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).

Resolution regime analysis

Hypo is domiciled in Finland, which is part of the EU's BRRD. We assess the systemic importance of Finnish mortgage covered bond programs as very strong. Under our covered bonds criteria, this means the RRL will be the greater of: (i) the issuing bank's ICR, plus two notches, and (ii) the resolution counterparty rating (RCR) on the issuing bank, where applicable. As Hypo has no RCR assigned, the resulting RRL is 'a-', two notches above the ICR.

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. This is 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. This increases the likelihood that Hypo would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even if it were to face insolvency.

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 covered bond programs is very strong. Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional support uplift from the RRL resulting in a JRL of 'aa-'. The jurisdictional support uplift is capped by the long-term foreign currency rating on the sovereign providing the support to the covered bond, which in this case is 'AA+'.

Collateral support analysis

We base our collateral support analysis on data as of April 30, 2022. The cover pool comprises Finnish residential mortgage loans (30.89%) and housing company loans (69.11%) originated by The Mortgage Society of Finland (see table 3).

The cover pool includes loans granted to borrowers with multiple loan parts and, in some occasions, backed by different properties. These loans currently represent on average about 30% of the property's current value. We observe continuous house prices development, with prices rising in some areas and declining in others. We have not observed an overheating of the real estate market in Finland and currently our analysis considers the Finnish residential properties slightly undervalued.

The combined mortgage portfolio's weighted-average LTV is about 31%, its seasoning approximately five years, and the interest rate on about 98% of the loans is floating.

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 the Finland under our global RMBS criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

We analyze the housing company loans under our commercial real estate criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

For the loans in the pool, our analysis estimated the foreclosure frequency and the loss severity in a 'AAA' stress scenario and, by multiplying the foreclosure frequency by the loss severity, the potential loss associated with each loan. 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.

As of April 30, 2022, at a 'AAA' level of stress, for the combined mortgage portfolio the WAFF is 14.51% (14.62% as of March 31, 2021) and the WALS is 10.59% (12.23% previously). Compared to our previous review, the combined WAFF remained stable while the combined WALS reduced. The reduction in the combined WALS is due to a reduction of both residential and commercial WALS driven by lower current LTV ratios after house price indexation in the residential subportfolio, and the lower current LTV ratios in the commercial portfolio.

At the subportfolio level, compared to our previous review the residential portfolio's WAFF reduced, which is mainly driven by slightly lower effective LTV ratios, an increase in residential loan seasoning, and a reduction in interest-only loans. The commercial subportfolio's WAFF remained stable.

Table 3

Cover Pool Composition

	As of April 30, 2022		As of March 31, 2021	
Asset type	**Value (mil. €)**	**Percentage of cover pool (%)**	**Value (mil. €)**	**Percentage of cover pool (%)**
Residential mortgages	626,038,475	30.89	766,292,061	33.16
Housing association loans	1,400,775,686	69.11	1,444,700,132	62.51
Cash	0.00	0.00	100,000,000	4.33
Total	2,026,814,161	100.00	2,310,992,193	100.00

Table 4

Key Credit Metrics

	As of April 30, 2022	As of March 31, 2021
Residential mortgages		
Weighted-average effective LTV ratio (%)*	60.44	61.26
Weighted-average original LTV ratio (%)	61.98	61.95
Weighted-average current LTV ratio (%)	54.28	58.51
Weighted-average loan seasoning§ (months)	52.02	44.97
Balance of loans in arrears > 30 days (%)	0.53	0.57
Buy-to-let loans (%)	4.02	4.57
Interest-only loans (%)	0.00	10.03
Residential mortgages credit analysis results		
WAFF (%)	7.71	8.50

Table 4

Key Credit Metrics (cont.)		
WALS (%)	14.75	17.44
Commercial mortgages (housing association loans)		
Weighted-average current LTV ratio (%)	20.14	20.65
Balance of loans in arrears > 30 days (%)	0	0.63
Commercial mortgages (housing association loans) credit analysis results		
WAFF (%)	17.66	17.87
WALS (%)	8.66	9.46
Combined mortgage pool credit analysis results		
WAFF (%)	14.51	14.62
WALS (%)	10.59	12.23
'AAA' credit risk (%)	2.50	2.50

*Calculated weighting 80% of the OLTV and 20% of the CLTV. LTVs are based on the full loan balances secured on the property, including loan parts outside the asset pool and prior- and second-ranking balances if any. N/A--Not applicable. §Seasoning refers to the elapsed loan term. LTV--Loan-to-value. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Table 5

Loan-To-Value Ratios	As of April 30, 2022	As of March 31, 2021
	Percentage of corresponding mortgage subcover pool (%)	
Residential mortgages - effective LTV ratios (%)		
0-40	11.54	10.65
40-50	9.42	9.25
50-60	10.88	10.95
60-70	42.63	35.90
70-80	25.33	33.25
80-90	0.11	0.00
90-100	0.00	0.00
>100	0.09	0.00
Residential loans weighted-average effective LTV ratio (%)	60.44	61.26
Residential mortgages - current LTV ratios (%)		
0-40	27.79	22.72
40-50	13.73	12.92
50-60	16.28	14.30
60-70	16.52	16.16
70-80	14.23	15.03
80-90	7.14	11.41
90-100	3.66	4.88
>100	0.65	2.58
Residential loans weighted-average current LTV ratio (%)	54.28	58.51

Table 5

Loan-To-Value Ratios (cont.)

Commercial mortgages (housing association loans) - whole loan LTV ratios (%)		
0-40	91.20	91.42
40-50	5.10	6.26
50-60	1.92	2.13
60-70	1.50	0.19
70-80	0.29	0.00
80-90	0.00	0.00
90-100	0.00	0.00
>100	0.00	0.00
Commercial mortgages (housing association loans) weighted-average whole loan LTV ratio (%)	20.14	20.65

Table 6

Residential Loan Seasoning Distribution*

	As of April 30, 2022	**As of March 31, 2021**
	Percentage of residential loan balance (%)	
<=5 years	68.43	76.58
>5 and <=6 years	8.52	5.01
>6 and <=7 years	5.39	4.75
>7 and <=8 years	4.67	4.34
>8 and <=9 years	4.08	2.17
>9 and <=10 years	2.15	0.74
>10 years	6.04	5.76
Weighted-average loan seasoning (months)	52.02	44.97

*Seasoning refers to the elapsed loan term.

Table 7

Regional Distribution Of Loan Assets

	As of April 30, 2022		**As of March 31, 2021**	
Top five concentrations	**Percentage of residential loan balance (%)**	**Percentage of commercial loan balance (housing association loans, %)**	**Percentage of residential loan balance (%)**	**Percentage of commercial loan balance (housing association loans, %)**
East	0.43	0.20	0.25	0.20
Oulu	0.43	3.35	0.41	2.62
West	5.79	20.92	4.89	22.98
South	93.33	75.53	94.44	74.20
Lapland	0.01	0.00	0.01	0.00
Total	100.00	100.00	100.00	100.00

Our weighted-average recovery period assumption for the combined mortgage loan portfolio is about 16 months. In addition, we assumed a stressed refinancing spread for the combined mortgage portfolio of 822 basis points.

The results of our credit analysis, including the cover pool's WAFF of 14.51%, weighted-average recovery rate

(1-WALS) equivalent to 89.41%, weighted-average time to recovery, and refinancing costs, represent inputs to our cash flow analysis.

We stress the cover pool's cash flows, incorporating among other factors, various default patterns, default timings, interest rate stresses, prepayment rates, and delinquencies assumptions. The aim of our cash flow analysis is to determine whether the cover pool's cash flow suffice, at a 'AAA' rating level, to make timely payment of interest and ultimate payment of principal on the covered bonds. Our cash flow analysis determines among other factors, the target credit enhancement needed to achieve the maximum potential collateral-based uplift, inclusive of 100% refinancing costs, and the credit enhancement required to cover 'AAA' credit risk assuming no asset-liability maturity mismatch.

By applying our credit and cash flow stresses, we determined a 'AAA' credit risk of 2.50% and a target credit enhancement of 21.75%. While 'AAA' credit risk remained stable, target credit enhancement is higher compared to our previous review. This is due to upcoming bond redemptions getting closer to the cash flow run date, and the reduction of the cash balance to zero, which had been registered in the cover pool at the time of our previous review to meet the then upcoming bond redemptions.

With an available credit enhancement of 26.68%, the covered bonds can achieve a potential collateral-based uplift of four notches above the JRL. We do not make any deductions from these four notches due to the covered bonds' soft-bullet redemption profile and the issuer's overcollateralization commitment. Therefore, the maximum collateral uplift remains at four notches.

With a JRL of 'aa-', the program uses three notches to attain a 'AAA' rating. The overcollateralization that is commensurate with a 'AAA' rating is therefore 16.68% (equivalent to 'AAA' credit risk plus 75% refinancing costs).

Resulting from the application of our counterparty risk criteria, there are no unused notches of collateral-based uplift in this program. This is because if we were to lower our long-term ICR on Hypo by one notch, we would also lower our ratings on the covered bonds as per our counterparty risk criteria, all else being equal (see 'Counterparty risk').

Table 8

Collateral Uplift Metrics

	As of April 30, 2022	As of March 31, 2021
Asset WAM (years)	9.54	9.67
Liability WAM (years)	4.75	4.76
Maturity gap (years)	4.79	4.91
Available credit enhancement	26.68	30.20
Required credit enhancement for first notch of collateral uplift (%)	6.53	5.95
Required credit enhancement for second notch of collateral uplift (%)	11.61	10.31
Required credit enhancement for third notch of collateral uplift (%)	16.68	14.68
Target credit enhancement for maximum uplift (%)	21.75	19.04
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 have identified several counterparty risks to which the covered bonds are exposed. However, these are either structurally addressed in line with our current counterparty criteria or taken into account in our cash flow modeling (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019). Therefore, we believe that they do not constrain the ratings from a counterparty risk perspective.

Bank account provider

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

Swaps

The program benefits from swaps with Nordea Bank AB, Swedbank AB, Danske Bank A/S, and 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 under our counterparty criteria, we consider various factors, including whether the counterparties are related to the issuer, the seniority of termination payments, the replacement commitment, and the collateral posting framework. The swap counterparties in this program are 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, Swedbank, and Danske Bank have committed to replacing themselves if their RCR falls below 'A-'. If a counterparty fails to meet this commitment, an additional termination event would allow the issuer to terminate the derivative agreement. Furthermore, if we lower our rating on a swap counterparty below 'A-', the counterparties have each committed to post collateral sufficient to cover the issuer'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 triggers have 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 the current RRL on the issuer ('a-') and the different replacement triggers, support a maximum potential rating of 'AAA' under our counterparty risk assessment. 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. As a result, this program does not currently benefit from any unused notches of uplift.

Sovereign risk

Under our structured finance sovereign risk criteria, covered bonds backed by mortgages that are issued in a jurisdiction that is within a monetary union that include structural coverage of refinancing need over a 12-month period to 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 rating on Finland, sovereign risk does not constrain our ratings on the covered bonds.

Environmental, Social, And Governance (ESG)

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 the Mortgage Society of Finland's mortgage covered bonds. The issuer currently does not offer specific mortgage products focused on environment or social factors, which could affect the credit results. The Finnish government guarantees certain first-time-buyer mortgages, but as we do not consider the guarantee timely, it does not affect the credit analysis. Hypo is committed to maintain a minimum level of overcollateralization in the program commensurate with the rating. Additionally, the bonds' soft-bullet repayment structure mitigates 180 days of liquidity risk. Both governance initiatives support the current ratings and the credit enhancement required for the rating.

Related Criteria

- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- Global Covered Bond Insights Q1 2022, March 17, 2022
- Norwegian And Finnish Covered Bond Market Insights 2022, Jan. 31, 2022

- S&P Global Ratings Definitions, Jan. 5, 2021
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