

Research

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

€2.5 Billion Covered Bond Program

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Table Of Contents

Major Rating Factors

Outlook: Stable

Rationale

Program Description

Rating Analysis

Environmental, Social, And Governance (ESG)

Related Criteria

Related Research

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

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Ratings Detail

Reference Rating Level	a-	+	Jurisdiction-Supported Rating Level	aa-	+	Maximum Achievable Covered Bond Rating	aaa	=	Covered Bond Rating	
Resolution Regime Uplift	+2		Assigned Jurisdictional Support Uplift	+3		Collateral Support Uplift	+4		AAA/Stable	
Systemic Importance	Very Strong		Jurisdictional Support Assessment	Very Strong		Overcollateralization Adjustment	0		Rating Constraints	aaa
Resolution Counterparty Rating	N/A		Legal Framework	Very Strong		Liquidity Adjustment	0		Counterparty Risk	aaa
Issuer Credit Rating	BBB		Systemic Importance	Very Strong		Potential Collateral Based Uplift	+4		Country Risk	aaa
			Sovereign Credit Capacity	Very Strong						

N/A--Not applicable.

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 an overcollateralization level consistent with a 'AAA' rating.
- Interest rate risk arising from the predominantly variable interest paying assets and the fixed-rate paying covered bonds is mitigated through interest rate swaps.

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). Following the application of our counterparty risk criteria, the program has no unused notches of ratings uplift. 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 issued before July 8, 2022, under the Finnish Act on Mortgage Credit Bank Activities (688/2010, as amended) (the "MCBA Covered Bond Program").

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

Accordingly, we performed a legal and regulatory review, operational risk review, resolution regime analysis, jurisdictional support analysis, 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 covered bondholders' benefit if the issuer becomes insolvent. The cover pool assets' protection and the cover pool's continued management 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 operational risk does not constrain the ratings on the covered bonds.

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 December 2022, the available overcollateralization of

28.74% exceeds the target credit enhancement of 23.68%, 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 soft-bullet maturity of the covered bonds mitigates liquidity risk for 180 days.

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

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. €)	1,470
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 (%)	23.68
Available credit enhancement (%)	28.74
Collateral support uplift	4
Unused notches for collateral support	0
Total unused notches	0

*Based on December 2022 data.

Founded in 1860, Hypo is the oldest private credit institution in Finland. It is a licensed bank and a mutual company operating under Finland's Act on Mortgage Societies and is governed by its members. With total assets of about €3.6 billion and a loan portfolio of €2.8 billion as of March 31, 2023, it has a marginal market share of about 0.8% in Finnish home mortgages and 1.0% in the total lending market in 2021. It grants long-term loans to Finnish households and housing companies against a mortgage or other safeguarding collateral. Hypo is active in Helsinki, southern Finland, and in specified growth centers in the rest of the country.

The mortgage covered bonds are issued under Hypo's €2.5 billion program for the issuance of senior preferred notes, subordinated debentures, and covered bonds. The MCBA cover pool which is subject to this review was established in November 2016.

In late 2022, Hypo set up a second cover pool which we analyze separately to issue covered bonds under Finland's Covered Bond Act, (CBA, 151/2022, as amended) which has been applicable since July 8, 2022 (the "CBA Covered Bond Program") (see New Issue: The Mortgage Society Of Finland CBA Covered Bond Program, published on Nov. 28, 2022).

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

Covered bonds are an important funding tool for Hypo. As of March 31, 2023, there are € 2070 million of covered bonds outstanding.

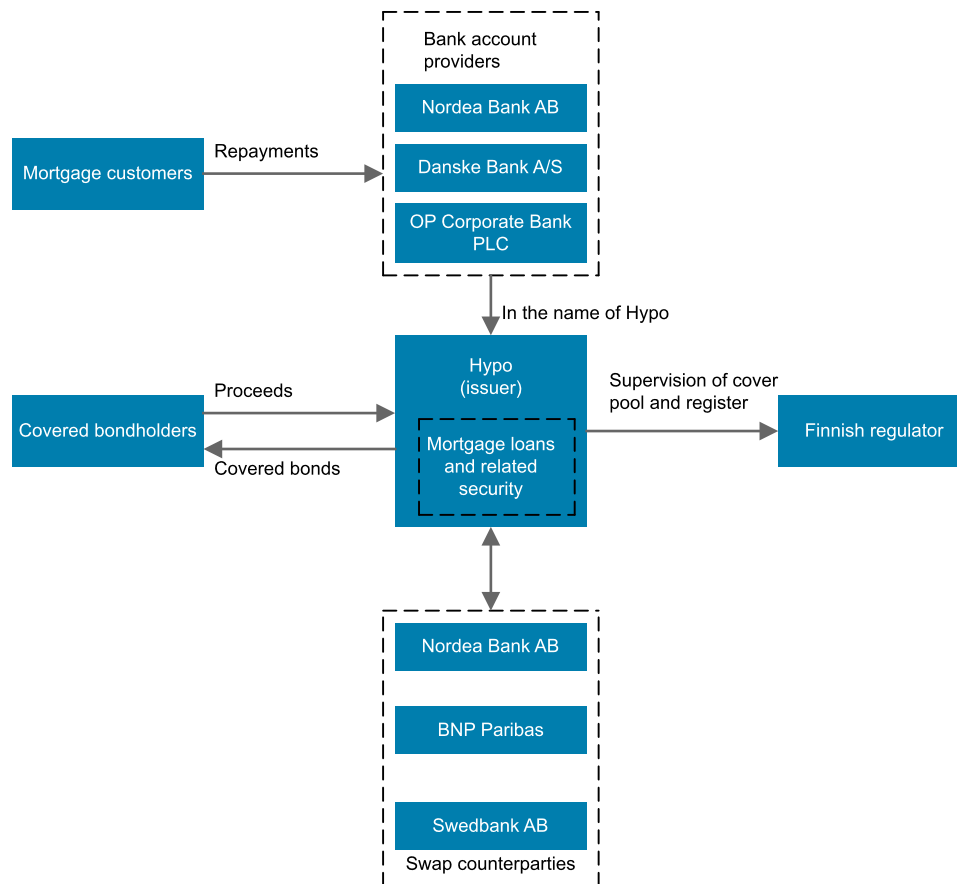
The covered bonds constitute Hypo's direct, unconditional, and unsubordinated debt obligations and are secured by a cover pool of euro-denominated Finnish residential mortgage loans and loans to housing companies registered in the cover pool, in line with the MCBA.

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

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

We base our analysis on loan-by-loan data and cash flow data as of Dec. 31, 2022. The cover pool composition and the loans' credit quality have remained stable since our previous review (see "Related Research").

The Mortgage Society of Finland Covered Bond Program
Transaction structure



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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+/Stable/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	BNP Paribas	A+/Stable/A-1	Yes

Table 2

Program participants (cont.)			
Role	Name	Rating	Rating dependency
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 applies from July 8, 2022. The CBA will replace the Finnish Act on Mortgage Credit Bank Activity (688/2010; the MCBA).

Hypo's outstanding covered bonds under this program prior to July 8, 2022, will continue to be governed by the MCBA.

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

Under the covered bond legislation, 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 requires 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 register's management including the recording of assets, and the issuer must regularly report the information in the register to the FIN-FSA.

The law sets 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. Additionally, pursuant to the MCBA, the total interest accrued on the cover pool 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 the MCBA.

If the issuer were to become insolvent, the FIN-FSA would appoint a supervisor to supervise the cover pool's management 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 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 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.

The Finnish covered bond law excludes set-off against cover pool assets and claw-back risk.

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 focuses on very-low-risk lending--comprising mortgage loans to domestic retail customers (30% of total portfolio as of Q1 2023) and housing companies (69% of total portfolio as of Q1 2023). Hypo expects loan growth to be balanced between retail and housing company loans, which reflects its low-risk appetite.

Mortgage loans are euro-denominated and mainly floating-rate loans. As of March 31, 2023, Hypo's average loan book LTV ratio stood at 30.5%, which is well below that of many specialized mortgage lenders in the Nordics. Furthermore, mortgage loans are almost entirely amortizing. 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 pillars:

- General terms (approved by the supervisory board), which lay down the core principles applicable to all lending activities, such as requirements for collateral and overall collateral evaluation, customer creditworthiness and cash flow sufficiency;
- Principles of credit risk management (approved by the board of directors), which include specific lending rules and principles, such as acceptable collateral, collateral evaluation and haircuts, customer selection, minimum criteria for cash flow evaluation, LTV ratio limits, the credit granting process, and reporting and auditing requirements; and
- Employee authorization (approved by Hypo's management group).

Hypo assesses its potential customers' creditworthiness through an internal grading system, which for retail customers includes stress testing based on a 6%/25-year stress calculation, borrower solvency analysis, prior customer payment behavior analysis, and public credit default register checks. The borrower's solvency is assessed on monthly net

income and housing costs as well as mandatory costs of living based on the household size. When calculating the collateral value, Hypo applies a haircut of 30-50%, depending on the collateral type.

We understand that since the Finnish banking crisis in the 1990s, Hypo has not experienced credit losses from housing companies, housing companies with properties under construction, or housing investors, which demonstrates the bank's highly prudent risk approach. Its nonperforming loan (NPL) ratio stood at 0.14% as of March 31, 2023, which is well below that of peers.

The FIN-FSA continues to focus strongly on ensuring strict underwriting criteria for household lending. It applies an 85% cap on loan-to-collateral ratios on new mortgage loans and a 95% cap for first-time buyers. The borrowers' ability to pay the loan and handle the regular living costs is stress tested with a 6% interest rate.

Overall, we assess Hypo's lending and underwriting standards as conservative. Its pure focus on residential mortgage lending and loans to housing associations in growth centers in Finland, with low LTV ratios, translates into higher asset quality compared with domestic peers.

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 a potential replacement cover pool manager would be available 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.

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-able debt 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 become insolvent.

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

Our analysis of the residential mortgage loans is based 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). Our analysis of the housing association loans is based on our commercial real estate criteria (CRE criteria; see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

We performed our analysis using loan-by-loan data and asset and liability cash flow projections provided by Hypo as of Dec. 31, 2022.

The cover pool comprises Finnish residential mortgage loans (31.8%) and housing company loans (68.2%) originated by Hypo (see table 3). The combined mortgage portfolio's weighted-average LTV ratio is about 31%, its seasoning approximately five years, and about 98% of loans pay a floating interest rate.

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. We assume that the probability of foreclosure is a function of both borrower and loan characteristics and will become more likely--and the realized loss on a loan more severe--as the economic environment deteriorates.

For the combined portfolio, our credit results remained stable. At a 'AAA' level of stress, for the combined mortgage portfolio, the WAFF is 14.99% (14.51% as of April 30, 2022) and the WALS is 11.04% (10.59% previously). At the sub-portfolio level, for the residential mortgage loans, the WAFF is 8.63% (previously 7.71%) and the WALS is 16.95% (previously 14.75%). For the housing association loans, the WAFF is 18.08% (17.66% previously) and the WALS is 8.17% (8.66% previously).

The residential pool's WAFF and WALS increased slightly, mainly due to lower loan seasoning and higher current LTV ratios after house price indexation. We observe continuous house prices development in Finland, with prices rising in some areas and declining in others. However, we have not observed an overheating of the real estate market, and currently our analysis considers Finnish residential properties as slightly undervalued.

The WALS for housing association loans decreased, mainly due to slightly lower current LTV ratios.

Table 3

Asset type	As of Dec. 31, 2022		As of April 30, 2022	
	Value (mil. €)	Percentage of cover pool	Value (mil. €)	Percentage of cover pool
Residential mortgages	601,085,645	31.76	626,038,475	30.89
Housing association loans	1,291,455,061	68.24	1,400,775,686	69.11
Total	1,892,540,706	100.00	2,026,814,161	100.00

Table 4

Key credit metrics		
	As of Dec. 31, 2022	As of April 30, 2022
Residential mortgages		
Weighted-average effective LTV ratio (%)*	61.04	60.44
Weighted-average original LTV ratio (%)	62.04	61.98
Weighted-average current LTV ratio (%)	57.03	54.28
Weighted-average loan seasoning§ (months)	41.75	52.02
Balance of loans in arrears > 30 days (%)	0.80	0.53
Buy-to-let loans (%)	2.47	4.02
Interest-only loans (%)	0.00	0.00
Residential mortgages credit analysis results		
WAFF (%)	8.63	7.71
WALS (%)	16.95	14.75
Commercial mortgages (housing association loans)		
Weighted-average current LTV ratio (%)	19.45	20.14
Balance of loans in arrears > 30 days (%)	0.72	0.00
Commercial mortgages (housing association loans) credit analysis results		
WAFF (%)	18.08	17.66
WALS (%)	8.17	8.66
Combined mortgage pool credit analysis results		
WAFF (%)	14.99	14.51
WALS (%)	11.04	10.59
'AAA' credit risk (%)	2.50	2.50

*Calculated weighting 80% of the OLTV and 20% of the CLTV. LTV ratios 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. §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 Dec. 31, 2022	As of April 30, 2022
	Percentage of corresponding mortgage sub-cover pool	
Residential mortgages - effective LTV ratios (%)		
0-40	10.91	11.54
40-50	9.16	9.42
50-60	10.27	10.88
60-70	40.24	42.63
70-80	29.33	25.33
80-90	0.00	0.11
90-100	0.00	0.00
>100	0.09	0.09
Residential loans weighted-average effective LTV ratio (%)	61.04	60.44

Table 5

Loan-to-value ratios (cont.)		
	As of Dec. 31, 2022	As of April 30, 2022
Residential mortgages - current LTV ratios (%)		
0-40	23.75	27.79
40-50	12.31	13.73
50-60	16.18	16.28
60-70	17.43	16.52
70-80	16.60	14.23
80-90	8.18	7.14
90-100	4.45	3.66
>100	1.09	0.65
Residential loans weighted-average current LTV ratio (%)	57.03	54.28
Commercial mortgages (housing association loans) - whole loan LTV ratios (%)		
0-40	93.35	91.20
40-50	2.94	5.10
50-60	1.77	1.92
60-70	1.50	1.50
70-80	0.44	0.29
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 (%)	19.41	20.14

LTV--Loan-to-value.

Table 6

Residential loan seasoning distribution*		
	As of Dec. 31, 2022	As of April 30, 2022
	Percentage of residential loan balance	
<=5 years	77.2	68.43
>5 and <=6 years	9.63	8.52
>6 and <=7 years	7.41	5.39
>7 and <=8 years	2.81	4.67
>8 and <=9 years	0	4.08
>9 and <=10 years	0.07	2.15
>10 years	2.1	6.04
Weighted-average loan seasoning (months)	41.75	52.02

*Seasoning refers to the elapsed loan term.

Table 7

Regional distribution of loan assets				
Top five concentrations	As of Dec.31, 2022		As of April 30, 2022	
	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	0.70	0.19	0.43	0.20
Oulu	0.47	3.33	0.43	3.35
West	6.71	23.36	5.79	20.92
South	92.13	73.12	93.33	75.53
Lapland	0.00	0.00	0.01	0.00
Total	100.00	100.00	100.00	100.00

The results of our credit analysis, including the combined pool's WAFF and WALs represent inputs to our cash flow analysis. Our analysis of the covered bonds' payment structure shows that cash flows from the cover pool assets would be sufficient, at the given rating, to make timely payment of interest and ultimate principal to the covered bond on its legal final maturity.

We stress the cover pool's cash flows, incorporating various default patterns, default timings, interest rate paths. We also stress cash flows under different prepayment rates and delinquency assumptions, which we run at different points over the covered bonds' weighted-average life.

The structure is exposed to an asset-liability maturity mismatch because the covered bonds' repayment profile does not match that of the assets. Our model simulates a stressed sale of assets whenever a liquidity gap occurs in our analysis. The adjustment applied for residential and commercial mortgage assets is 425 basis points and 1000 basis points respectively, on top of the stressed interest rate at the time of the shortfall.

We also model the possibility that the spread on the mortgages compresses over time, due to defaults, prepayments, and product switches. To account for this, we reduce margins, assuming a percentage of the higher-yielding loans exit the portfolio. We also stressed basis risk.

By applying our credit and cash flow stresses, we determined a 'AAA' credit risk of 2.50% and a target credit enhancement of 23.68%, which is below the available credit enhancement of 28.74%. The target credit enhancement includes the additional credit enhancement that we expect is required to refinance the cover pool in a stressed environment.

While 'AAA' credit risk remained stable, target credit enhancement is higher compared to our previous review. This is mainly due to upcoming bond redemptions getting closer to the cash flow run date, and a higher asset-liability maturity mismatch.

With an available credit enhancement of 28.74%, 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, which satisfies the liquidity coverage requirement under our criteria, and Hypo's overcollateralization commitment. Therefore, the maximum collateral uplift is four notches above the JRL.

With a JRL of 'aa-', the program uses three notches to attain a 'AAA' rating. The overcollateralization commensurate with a 'AAA' rating equals 17.83%.

Following the application of our counterparty risk criteria, the program has no unused notches of ratings uplift. 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 under our counterparty risk criteria, all else being equal (see 'Counterparty risk').

Table 8

Collateral uplift metrics		
	As of Dec. 31, 2022	As of April 30, 2022
Asset WAM (years)	10.17	9.54
Liability WAM (years)	4.26	4.75
Maturity gap (years)	5.91	4.79
Available credit enhancement	28.74	26.68
Required credit enhancement for first notch of collateral uplift (%)	6.14	6.53
Required credit enhancement for second notch of collateral uplift (%)	11.98	11.61
Required credit enhancement for third notch of collateral uplift (%)	17.83	16.68
Target credit enhancement for maximum uplift (%)	23.68	21.75
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. We view the resulting account bank risk as mitigated by Hypo's commitment to replace these accounts within 90 calendar days should their long-term ICR drop below "BBB".

Swaps

The program benefits from swaps with Nordea Bank AB, Swedbank AB, 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, and Swedbank 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
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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 alphanumeric 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 overcollateralization level 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

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- 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
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Norwegian And Finnish Covered Bond Market Insights 2023, April 18, 2023
- Global Covered Bond Insights Q2 2023: The Implications Of Rising Interest Rates, April 12, 2023
- The Mortgage Society of Finland, July 11, 2022
- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Transaction Update: The Mortgage Society of Finland (Mortgage Covered Bond Program), May 27, 2021
- Glossary Of Covered Bond Terms, April 27, 2018

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