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

€2.5 Billion Covered Bond Program

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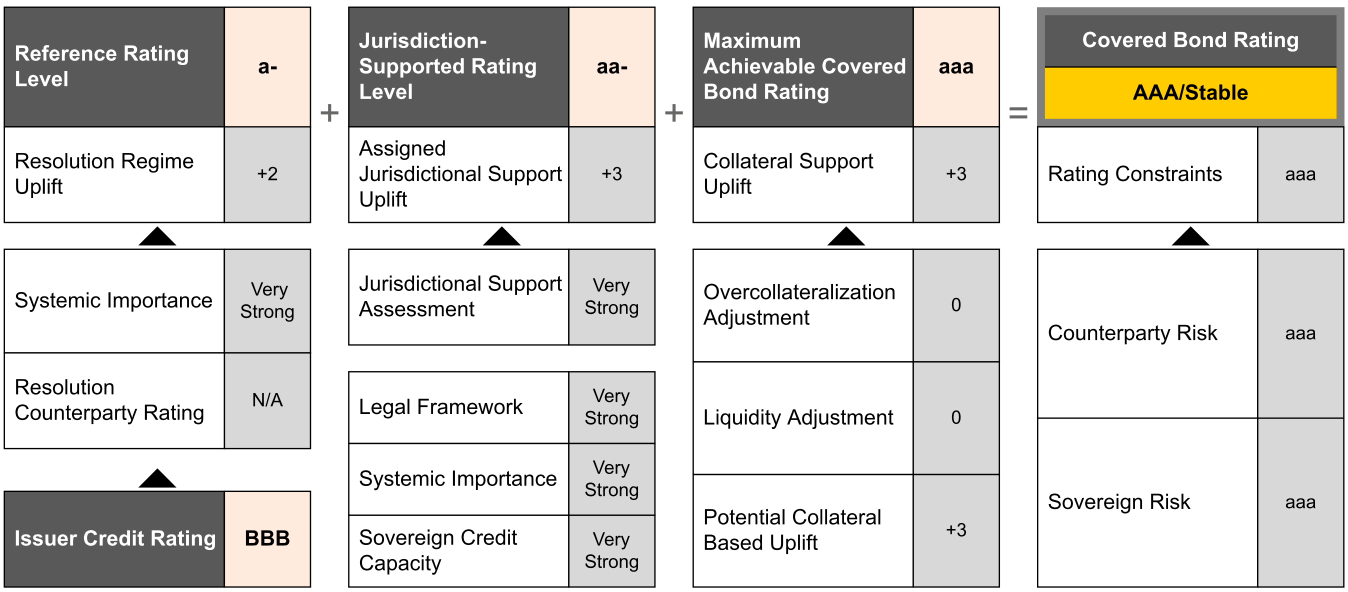
Ratings Detail



N/A--Not applicable.

Major Rating Factors

Strengths

- The cover pool comprises mortgage loans with low loan-to-value (LTV) ratios when compared to other specialized mortgage lenders in the Nordics.
- The program benefits from a public commitment to maintaining 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 partially mitigated through interest rate swaps.

Weaknesses

- The concentration of mortgages in the South of Finland, which we have considered in our determination of default frequency.
- About 61% of the pool comprises housing companies, which we view as a higher risk to the program's creditworthiness than residential mortgages.

- Obligor concentration within the sub portion of housing company loans, with the largest 10 borrowers representing 3.6% of the covered bonds' balance.

Outlook

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).

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," Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," 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 legal and regulatory framework analysis 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, covering 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 covered bond ratings.

Under our resolution regime analysis, we determined a reference rating level (RRL) of 'a-' 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 very strong jurisdictional support for Finnish mortgage covered bonds, 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 'aa-' JRL. As of March2025, the available overcollateralization of 24.65% exceeds the credit enhancement required for three notches of collateral-based uplift of 19.5% but is below the target credit enhancement of 26%, meaning that the covered bonds are eligible for up to three notches of collateral-based uplift. We do not reduce these three notches owing to Hypo's public statement committing to maintaining an overcollateralization level consistent with a 'AAA' rating, and because we consider that the covered bonds' soft-bullet maturity mitigates liquidity risk for 180 days.

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

Our analysis is based on criteria 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. €)	820
Redemption profile	Soft bullet
Underlying assets	Residential mortgages and housing company loans
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	26
Available credit enhancement (%)	24,65
Collateral support uplift	3
Unused notches for collateral support	0
Total unused notches	0

*Based on data as of March 28, 2025 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 €3.5 billion and a loan portfolio of €2.8 billion as of March 2025, it is a small player in the Finnish banking sector (market share of about 1% in 2024). 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 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, 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," 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 May 31, 2025, there are a total of €1,650 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.

Mortgage loans are predominantly floating rate paying, while outstanding covered bonds pay fixed interest rates, out of which 40% are swapped into a floating interest rate through derivatives with Swedbank AB.

The covered bonds benefit from Hypo's commitment to maintaining overcollateralization sufficient to support a 'AAA' rating.

We base our analysis on loan-by-loan and cash flow data as of March 28, 2025.

The Mortgage Society of Finland Covered Bond Program

Transaction structure

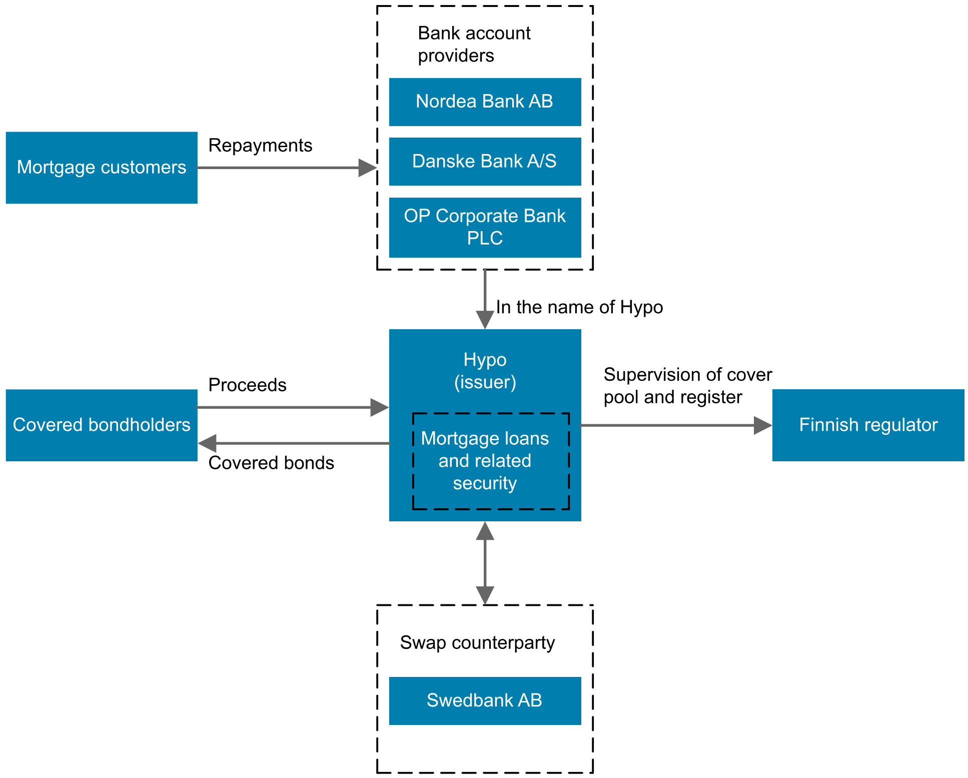


Table 2

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	Swedbank AB	A+/Positive/A-1	Yes

Rating Analysis

Legal and regulatory risks

We base our legal risk analysis on our "Asset Isolation And Special-Purpose Entity Methodology," May 29, 2025.

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 replaced 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, 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 higher than 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 quarterly report the information in the register to the FIN-FSA.

The law sets out eligibility criteria for cover pool assets, comprising 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 its 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," June 30, 2015).

Hypo focuses on very-low-risk lending--comprising mortgage loans to domestic retail customers and housing companies (29% and 69% of total portfolio, respectively, as of Q4 2024). Hypo expects loan growth to be balanced between retail and housing company loans, reflecting its low-risk appetite.

Mortgage loans are euro-denominated and mainly have a floating rate. As of Q4 2024, Hypo's average loan book LTV ratio stood at 31.1%, 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 in Helsinki. Its services are complemented through online and telephone banking.

Hypo's credit underwriting policy consists of three pillars:

- General terms, 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, which include specific lending rules and principles, such as acceptable collateral, customer selection, minimum criteria for cash flow evaluation, LTV ratio limits, the credit granting process, and reporting and auditing requirements; and
- Employee authorization.

Hypo assesses its potential customers' creditworthiness through an internal grading system, which for retail customers includes stress testing, borrower solvency analysis, prior 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 0.43% as of end 2024, well below that of peers.

Overall, we assess Hypo's lending and underwriting standards as conservative. Its pure focus on residential mortgage lending and loans to housing companies 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 'aa-' JRL. 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," April 4, 2024). Our analysis of the housing company 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," March 31, 2015).

We performed our analysis using loan-by-loan data and asset and liability cash flow projections provided by Hypo as of March 28, 2025.

Following Hypo's redemption of a €350 million covered bond in June 2024, the cover pool's notional amount decreased significantly, reaching €1,108 million in Q1 2025 (compared to €1,460 million one year before). As of March 2025, the portion of loans granted to housing companies decreased to 61% from 72%, with a corresponding increase in the share of residential mortgages, which currently account for 39% of the portfolio.

The cover pool includes 5,479 loans granted to 5,547 borrowers. On average, the outstanding balance of these loans represents about 26% of the property's current value, after considering adjustments for house price index developments. The portfolio's weighted-average seasoning is about five years, and 97.5% of the loans pay a floating rate of interest.

We assess the credit quality of the cover pool by estimating the credit risk associated with each loan in the portfolio. To derive the overall credit quality, 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 March 2025, we estimate a WAFF of 13% and a WALS of 8.3% for the combined mortgage portfolio at a 'AAA' level of stress. The WAFF has improved compared to last year (at 15.03%) mainly due to the proportionally higher share of residential mortgages in the portfolio which, additionally, exhibit stronger credit features, such as lower LTV ratios and higher seasoning. Conversely, the WALS has slightly increased (from 7.4%), primarily due to loans to housing companies now being concentrated in relatively higher LTV buckets, which more than offsets the positive impact of the improved loss severity assessment of the residential mortgage segment.

The below tables summarize the cover pool's composition.

Table 3

Cover pool composition

	As of March 2025		As of March 2024	
Asset type	**Value (mil. €)**	**% of cover pool**	**Value (mil. €)**	**% of cover pool**
Residential mortgages	434.331.541	39,22	404.244.805	27,69
Housing company loans	673.250.527	60,78	1.055.759.550	72,31
Total	1.107.582.068	100,00	1.460.004.355	100,00

Table 4

Key credit metrics

	As of March 2025	As of March 2024
Residential mortgages		
Weighted-average effective LTV ratio (%)*	45.88	53.65
Weighted-average indexed current LTV ratio (based on cover pool balance, %)	42.57	48.56
Weighted-average loan seasoning† (months)	71	57
Buy-to-let loans (%)	5.06	3.67
Debt-to-income ratio > 5x (%)	10.1	16.03
Residential mortgages credit analysis results		
WAFF (%)	5.98	8.66
WALS (%)	8.22	13.83
Commercial mortgages (housing company loans)		
Weighted-average current LTV ratio (%)	18.82	15.50
Commercial mortgages (housing company loans) credit analysis results		
WAFF (%)	17.5	17.55
WALS (%)	8.31	4.79

Table 4

Key credit metrics (cont.)

Combined mortgage pool credit analysis results		
WAFF (%)	13	15.03
WALS (%)	8.28	7.36
'AAA' credit risk (%)	1.07	2.50

*Calculated using 100% of current indexed whole loan LTVs. 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 March 2025	As of March 2024
	% of corresponding mortgage sub-cover pool	
Residential mortgages - effective LTV ratios (%)		
0-40	45,81	32,65
40-50	16,01	10,80
50-60	11,31	13,45
60-70	9,89	14,51
70-80	9,58	13,96
80-90	4,59	9,11
90-100	1,99	4,06
>100	0,81	1,46
Residential loans weighted-average effective LTV ratio (%)	45,88	53,65
Residential mortgages - indexed current LTV ratios (cover pool balance, %)		
0-40	55,19	35,46
40-50	10,51	11,77
50-60	10,25	14,23
60-70	13,13	29,03
70-80	10,54	8,50
80-90	0,07	0,31
90-100	0,04	0,18
>100	0,27	0,52
Residential loans weighted-average indexed current LTV ratio (current balance, %)	42,57	48,56
Commercial mortgages (housing company loans) - whole loan LTV ratios (cover pool balance, %)		
0-40	90,97	95,22
40-50	5,54	1,80
50-60	3,32	2,74
60-70	0,16	0,00
70-80	0,00	0,00
80-90	0,00	0,01
90-100	0,00	0,01
>100	0,00	0,23

Table 5

Loan-to-value ratios (cont.)		
Commercial mortgages (housing company loans) weighted-average whole loan LTV ratio (current balance, %)	18,82	15,50

LTV--Loan-to-value.

Table 6

Residential loan seasoning distribution*		
	As of March 2025	**As of March 2024**
	% of residential loan balance	
<=5 years	37.99	63.23
>5 and <=6 years	15.45	9.58
>6 and <=7 years	14.64	9.86
>7 and <=8 years	9.89	8.7
>8 and <=9 years	7.74	4.54
>9 and <=10 years	4.12	0.75
>10 years	7.74	3.11
Weighted-average loan seasoning (months)	71.28	56.98

*Seasoning refers to the elapsed loan term.

Table 7

Regional distribution of loan assets				
	As of March 2025		**As of March 2024**	
Top five concentrations	**% of residential loan balance**	**% of commercial loan balance (housing company loans)**	**% of residential loan balance**	**% of commercial loan balance (housing company loans)**
South Finland (including Helsinki)	92,28	77,72	91,64	73,68
West Finland	6,75	18,08	7,26	22,97
Oulu	0,53	2,03	0,44	2,90
East Finland	0,43	1,42	0,62	0,40
Lapland	0,00	0,75	0,03	0,00
Aaland	0,00	0,00	0,00	0,05
Total	100,00	100,00	100,00	100,00

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 with 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 (bps) and 1,000 bps respectively, on top of the stressed interest rate during 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.

Our 'AAA' credit risk shows the amount of overcollateralization commensurate with our credit risk assessment. This figure is 3.6% and is now floored by the result of the largest obligor default test determined under our CRE criteria. Following the decrease in the balance of loans to housing companies (together with the overall drop in the cover pool size), the loss related to the 10 largest obligors currently accounts for a relatively higher share of the portfolio, at 3.6%, compared to 1.3% in our previous analysis.

Our target credit enhancement (TCE) includes the additional credit enhancement that we expect is required to refinance the cover pool in a stressed environment. By applying our credit and cash flow stresses, we calculate a TCE of 26%, relatively stable compared to last year (at 25.9%).

With an available credit enhancement of 24.65%, the covered bonds can achieve a potential collateral-based uplift of three notches above the JRL. We do not make any deductions from these three 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 three notches above the JRL.

With an 'aa-' JRL, the program uses all three notches to attain a 'AAA' rating. The overcollateralization commensurate with a 'AAA' rating equals 19.49%.

Table 8

Collateral uplift metrics

	As of March 2025	As of March 2024
Asset WAM (years)	9.45	9.65
Liability WAM (years)	3.77	3.71
Maturity gap (years)	5.68	5.94
Available credit enhancement	24.65	24.79
Required credit enhancement for first notch of collateral uplift (%)	6.46	6.24
Required credit enhancement for second notch of collateral uplift (%)	12.98	12.78
Required credit enhancement for third notch of collateral uplift (%)	19.49	19.32
Target credit enhancement for maximum uplift (%)	26	25.86
Potential collateral-based uplift (notches)	3	3
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	N	N
Collateral support uplift (notches)	3	3

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," 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 a swap agreement with Swedbank AB under which 40% of the fixed interest payable on the covered bonds is swapped to floating.

To derive the maximum potential covered bond rating 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 counterparty in this program is unrelated to the issuer and entitled to termination payments that rank pari passu with payments on the covered bonds. According to the swap documentation, Swedbank has committed to replacing itself if its RCR falls below 'A-'. If it 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 counterparty has 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 in the derivative contract as strong.

The collateral framework assessment, combined with the current RRL on the issuer ('a-') and the replacement trigger, 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 by application of our counterparty risk criteria, all else being equal.

Sovereign risk

We analyze sovereign risk according to our ("Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," Jan. 30, 2019). Under these criteria, covered bonds backed by mortgages issued in a jurisdiction that is within a monetary union including structural coverage of refinancing needs over a 12-month period (provided by the 12-month extendible maturity profile of the soft-bullet bonds in this instance) exhibit low sensitivity to sovereign risk. As a result, we can rate these covered bonds up to five notches above the sovereign rating. Given our 'AA+' long-term rating on Finland, sovereign risk does not constrain our covered bond ratings.

Environmental, Social, And Governance

Environmental, social, and governance factors do not materially influence our credit rating analysis of Hypo'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 part of the loan on certain residential mortgages, but as we do not consider the guarantee timely, it does not affect the credit analysis. Hypo is committed to maintaining a minimum overcollateralization level in the program commensurate with the rating on the covered bonds. 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.

Potential Effects Of Proposed Criteria Changes

Our ratings are based on our applicable criteria, including our "Covered Bonds Criteria," Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," June 30, 2015. However, these criteria are under review (see "Request For Comment: Methodology For Rating Covered Bonds," April 3, 2025, and "Request For Comment: Counterparty Risk Methodology," April 3, 2025). As a result of this review, we may amend these criteria. This change may affect the ratings on the outstanding covered bonds issued under this covered bond program. Until this time, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria").

Related Criteria

- Asset Isolation And Special-Purpose Entity Methodology, May 29, 2025
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement, April 4, 2024
- 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
- 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

- Global Covered Bond Insights Q2 2025: Issuance Holds Steady Amid Market Volatility, March 18, 2025
- Transaction Update: The Mortgage Society of Finland CBA Covered Bond Program, Dec. 24, 2024
- S&P Global Ratings Definitions, Dec. 2, 2024
- Banking Industry Country Risk Assessment: Finland, Nov. 7, 2024
- Mortgage Society of Finland (The), Oct. 4, 2024
- Glossary Of Covered Bond Terms, April 27, 2018