

Transaction Update:

# The Mortgage Society Of Finland CBA Covered Bond Program

December 22, 2025

Reference rating level	a-	Jurisdiction-supported rating level	aa-	Maximum achievable CB rating	aaa	<b>Covered bond rating</b>	
Resolution regime uplift	+2	Assigned jurisdictional support uplift	+3	Assigned collateral support uplift	+4	<b>AAA/Stable</b>	
Systemic importance	Very Strong	Jurisdictional support assessment	Very Strong	Over-collateralization adjustment	0	Rating constraints	aaa
Resolution counterparty rating	N/A			Liquidity adjustment	0	Sovereign risk	aaa
<b>Issuer credit rating</b>	<b>BBB</b>			Potential collateral-based uplift	+4	Counterparty risk	aaa

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Credit Highlights

**Overview**

**Key strengths**

The cover pool comprises well-seasoned Finnish mortgage loans with lower current loan-to-value (LTV) ratios than other specialized mortgage lenders in the Nordics.

The program benefits from one unused notch that would protect the covered bond ratings if we were to lower the long-term issuer credit rating (ICR) on the issuer.

The bonds' soft-bullet repayment profile mitigates liquidity risk. Furthermore, the issuer is committed to maintain an overcollateralization level consistent with the 'AAA' ratings.

**Key risks**

Interest rate mismatch arising from predominantly floating-rate cover pool assets and 50% of fixed-rate covered bonds, without an interest-rate hedge within the cover pool.

About 90% of the pool comprises loans to housing companies, which we view as a higher risk to the program's creditworthiness than residential mortgages.

**The application of our updated covered bonds criteria allows the program to achieve 'AAA' ratings based on the coverage of 'AAA' credit risk and 50% refinancing costs.** In our previous

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analysis, apart from credit risk, the program required a 75% coverage of refinancing costs to attain 'AAA' ratings (see "[Methodology For Rating Covered Bonds](#)," July 25, 2025).

**Our assessment of 'AAA' credit risk and target credit enhancement (TCE) has improved.** As of September 2025, the amount of cover pool assets and outstanding bonds increased, following the Mortgage Society of Finland's (Suomen Hypoteekkiyhdistys; Hypo) fourth covered bond issuance under the program. The credit quality of the mortgage assets in the portfolio, comprising loans to housing associations and retail clients, has slightly improved. In addition, the application of our updated criteria resulted in the removal of spread compression and basis risk stresses from our analysis, and the application of lower target and base-case asset spreads. These factors have positively affected 'AAA' credit risk (decreased to 3.71% from 4.27% previously) and the TCE (decreased to 9.44% from 19.40% previously). We define TCE as the overcollateralization commensurate with the maximum collateral-based uplift.

**Our counterparty risk assessment does not constrain the ratings on the covered bonds.**

Accordingly, and considering that derivative counterparties under the program are rated at least 'BBB-' and are subject to an effective replacement framework, counterparty risk does not constrain the ratings on the covered bonds.

**The program benefits from one unused notch of ratings uplift.** We could lower the ICR on the Mortgage Society of Finland by one notch without lowering the ratings on the covered bonds.

**The banking sector shows resilience to economic risk.** We view Finland as an innovative, wealthy, small, and open economy with mature political and institutional structures. Over the next two years, we forecast the economy to slowly recover and Finnish banks to face limited risks. We expect credit losses will remain small because of Finnish banks' prudent underwriting standards, their focus on collateralized lending, the private sector's sound financial buffers, and Finland's strong social security system. Owing to robust capitalization, banks' resilience is unlikely to wane. Despite the sector's reliance on external wholesale funding, good access to capital markets and the increasing share of covered bond funding are likely to partly mitigate this risk. Moreover, the deposit base has been largely stable and continues to be the most important funding source for the wider banking sector (see "[Mortgage Society of Finland \(The\)](#)," Nov. 24, 2025, and "[Banking Industry Country Risk Assessment: Finland](#)," Nov. 7, 2024).

**Banking industry risk is stable.** In our view, regulatory standards and bank supervision in Finland are in line with those of European peers. The banking sector is dominated by two major banking groups, OP Pohjola and Nordea Bank Abp, and underpinned by intense competition and low lending margins. Even if policy rates are set to decline further, overall sector profitability will likely remain at a strong level and banks' risk appetites restrained. In our view, the risk of technology disruption to the Finnish banking system is moderate given banks' advanced digital customer offerings, high automation usage, and ongoing innovation investment. Finnish banks rely on external funding, which makes them vulnerable to changes in market confidence. Still, they continue to demonstrate good access to capital markets. The Nordic banking system remains highly interconnected, which results in potential spillover risks from external events.

## Outlook

The stable outlook on the 'AAA' ratings on Hypo's Covered Bond Act (CBA) mortgage covered bond program and related issuances reflects that we would not automatically lower the ratings if we were to lower our long-term ICR on Hypo by one notch, all else being equal.

## Program Description

Table 1

### Program overview\*

Jurisdiction	Finland
Legal framework	Finnish Covered Bond Act
Redemption profile	Soft-bullet
Underlying assets	Finnish residential mortgage loans and loans to housing companies
Outstanding covered bonds (mil. €)	1200
Available credit enhancement (current balance, %)	17.91
Credit enhancement commensurate with rating (%)	6.58
Legal overcollateralization (%)	2.00
Number of unused notches	1

\*Based on cash flows as of Sept. 30, 2025.

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 €3.7 billion and a loan portfolio of €2.8 billion as of Sept. 30, 2025, Hypo is a small player in Finland's banking sector (market share of about 1% of total lending in Finland). Its focus is purely on low-risk residential mortgage lending to Finnish households and housing companies. Hypo is active in urban areas in Finland--Helsinki, southern Finland, and other growth centers--benefiting from ongoing urbanization trends.

This is Hypo's second covered bond program. It was set up in late 2022 to issue covered bonds under Finland's CBA, effective July 8, 2022. 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.

Hypo's first cover pool was established in November 2016 and contains covered bonds issued before the implementation of the EU Covered Bond Directive on July 8, 2022, under the Finnish Act on Mortgage Credit Bank Activities (688/2010) (the "MCBA Covered Bond Program"), which we analyze separately.

Covered bonds are Hypo's main financing source, together with deposits, each making up about half of its total funding. Hypo issued its fourth €300 million fixed interest rate paying covered bond under the CBA Covered Bond Program in September 2025. The covered bonds constitute direct unconditional and unsubordinated debt obligations of Hypo and are secured by a cover pool of eligible assets including residential mortgage loans and loans to housing companies registered in the cover pool.

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

To hedge the interest rate mismatch arising from the floating-rate assets and the fixed-rate covered bonds, Hypo entered into different interest rate hedge swaps with Natixis SA, Nordea Bank Abp, Swedbank AB, and Danske Bank A/S. Hypo decided not to swap the third and fourth

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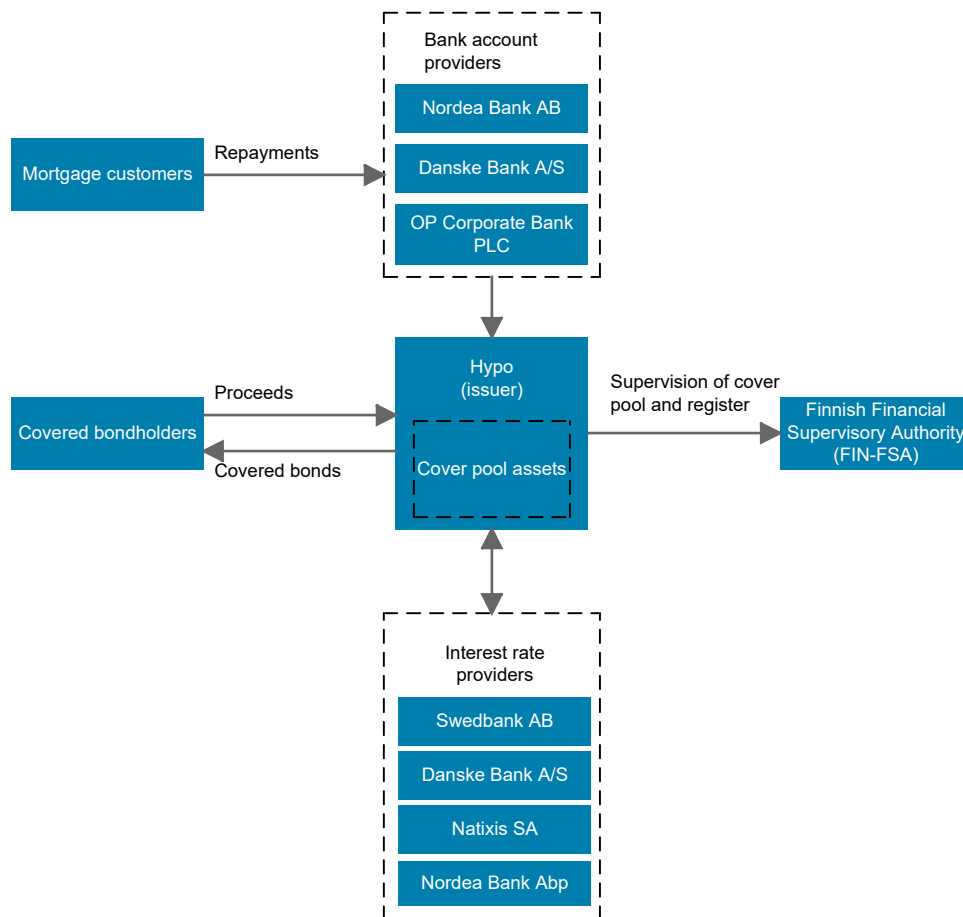
covered bond issuances under the program, which we model as per its terms and conditions in our cash flow analysis.

The mortgage borrowers pay their loan installments into external bank accounts in Hypo's name or in the name of its wholly owned subsidiary. Hypo is committed to replace these accounts within 90 calendar days should their long-term ICRs drop below 'BBB'.

The covered bonds are subject to a 12-month maturity extension and benefit from Hypo's commitment to maintain overcollateralization sufficient to support 'AAA' ratings on the covered bonds.

Our quarterly surveillance reports for this cover pool can be found [here](#).

### Program 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

## Program participants

Role	Name	Rating	Rating dependency
Bank account provider	Nordea Bank Abp	AA-/Stable/A-1+	No
Bank account provider	Danske Bank A/S	A+/Stable/A-1	No
Bank account provider	OP Corporate Bank PLC	AA-/Stable/A-1+	No
Interest rate hedge provider	Nordea Bank Abp	AA-/Stable/A-1+	Yes
Interest rate hedge provider	Danske Bank A/S	A+/Stable/A-1	Yes
Interest rate hedge provider	Swedbank AB	AA-/Stable/A-1+	Yes
Interest rate hedge provider	Natixis SA	A+/Stable/A-1	Yes

## Rating Analysis

### Legal and regulatory risks

Hypo's covered bonds are governed by the CBA, which entered into force on July 8, 2022, and implemented the EU Covered Bonds Directive into national legislation. The CBA repealed the Finnish Act on Mortgage Credit Bank Activity (688/2010; MCBA).

In our opinion, the CBA sufficiently addresses the relevant legal aspects of our updated covered bonds criteria and our legal criteria (see "[Asset Isolation And Special-Purpose Entity Methodology](#)," May 29, 2025). This enables us to rate the covered bonds above the long-term ICR on the issuer. The issuer must maintain a minimum 2% overcollateralization level on a net present value (NPV) basis, or 5% on an NPV basis if the conditions of the EU Capital Requirement Regulation are not met (see "[A Closer Look At Finland's Covered Bond Framework](#)," Sept. 27, 2023).

### Resolution regime analysis

Our analysis considers whether the applicable resolution regime in Finland enhances the likelihood that the issuer will continue servicing its covered bonds, even following a default on its senior unsecured obligations.

Hypo is domiciled in Finland, which is subject to the EU's Bank Recovery and Resolution Directive. We assess the systemic importance for Finnish mortgage programs as very strong. Under our covered bonds criteria, we determine the reference rating level (RRL) as the higher of (i) two notches above the long-term ICR; and (ii) the resolution counterparty rating (RCR) on the issuing bank, where applicable. As we do not assign a RCR to Hypo, the RRL is 'a-', two notches above the ICR.

### 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. For banks in countries that are member of a monetary union, we also consider support from supranational entities such as the European Central Bank in the eurozone. Our assessment of the expected jurisdictional support for Finnish mortgage covered bonds is very strong, resulting in a jurisdictional support uplift from the RRL of three notches leading to a jurisdiction-supported rating level (JRL) of 'aa-'.

## Operational and administrative risks

Our analysis of these risks assesses whether key transaction parties would be capable of managing a covered bond program while any bonds remain outstanding. We reviewed Hypo's origination, underwriting, collection, default management, and cover pool management and administration. No operational or administrative risks were identified affecting our assessment of the program.

We believe that a replacement cover pool manager would be available to manage the cover pool if the issuer were to become insolvent. In our view, Finland is an established covered bond market, and the mortgage loans in Hypo's cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers.

Hypo focuses on low-risk mortgage lending to households (about 30% of the total portfolio at bank level as of June 2025) and housing companies (70% of total portfolio), secured by residential property collateral. Mortgage loans are euro-denominated and mainly have a floating rate. As of September 2025, Hypo's reported average LTV ratio in this cover pool stood at 21%, which is well below that of most specialized mortgage lenders in the Nordics. Furthermore, mortgage loans are almost entirely amortizing with an average maturity of 17.7 years.

Hypo is active only in Helsinki, southern Finland, and specified growth centers in the rest of the country. Its sole physical branch is in Helsinki, with services complemented through online and telephone banking.

Hypo's underwriting policy comprises three main 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, and 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 limits, the credit granting process, and reporting and auditing requirements; and
- Employee authorization (approved by Hypo's management group).

Hypo assesses the creditworthiness of potential retail customers through an internal grading system, which 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 type of collateral.

We understand that Hypo has not experienced credit losses from housing companies, housing companies with properties under construction, or housing investors since the Finnish banking crisis in the 1990s. This demonstrates the bank's prudent risk approach. Its nonperforming loan ratio stood at 0.39% in third quarter 2025, well below that of its peers.

The Finnish Financial Supervisory Authority currently applies a 90% cap on loan-to-collateral ratios on residential mortgage loans and a 95% cap for first-time homebuyers.

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

## Collateral support analysis

**Mortgage market outlook:** Finland’s mortgage market is recovering after the sharp correction in 2022–2024. Borrowers remain resilient, interest rates are easing, and banks are well-capitalized. Over the next two years, mortgage demand will strengthen modestly, though risks from household debt and real estate exposures mean the recovery will be cautious rather than rapid. We think urbanization will continue over the medium to long term, leading to stronger upside potential for house prices in Helsinki and other growth cities.

Despite the recent sharp rise in interest rates, households' debt servicing capacity remains sound. Finnish mortgages are generally linked to floating rates, and mortgages that are fixed for less than one year account for more than 95% of new mortgages. As a result, debt servicing costs have increased since mid-2022, with interest expenses exceeding 3.0% of disposable income in mid-2024, up from 1.8% in 2022. That said, about one-third of mortgage loans hold interest rate hedges--either a cap or a collar--which somewhat mitigated the negative effects of rising rates. On another positive note, the highest interest expenses tend to fall on average for high-income households, which supports our view of sound debt servicing capacity (see “[Banking Industry Country Risk Assessment: Finland](#),” Nov. 7, 2024).

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 Finland under our global RMBS criteria (see “[Global Methodology And Assumptions: Assessing Pools Of Residential Loans](#),” Jan. 25, 2019). Our analysis of the housing company loans is based under our commercial real estate criteria (see “[Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds](#),” March 31, 2015).

We based our credit and cash flow analysis on loan-level data as of June 30, 2025, and asset and liabilities cash flow projections as of Sept. 30, 2025, respectively. At a 'AAA' stress level, our weighted-average foreclosure frequency (WAFF) is 16.45% (down from 18.91% previously) and the weighted-average loss severity (WALS) is 8.17% (up from 7.96% previously). The combination of the WAFF and WALS as the measure of the cover pool's overall credit quality (credit coverage: WAFF x WALS) has decreased to 1.34% from 1.51% previously. The WAFF decreased primarily due to a lower concentration of mortgages in the South of Finland (this has been the case over 2024 and 2025), as well as an improved seasoning distribution. Mortgage loans in arrears above 29 days are not eligible as per the program’s eligibility criteria. Conversely, the WALS assumption slightly increased mainly due to mortgage loans being concentrated in relatively higher LTV ratio buckets. The below tables summarize the cover pool's composition.

Table 3

### Cover pool composition

Asset type	--As of June 30, 2025--		--As of June 30, 2024--	
	Value current balance (mil. €)	% of cover pool	Value current balance (mil. €)	% of cover pool
Residential mortgage loans (housing loans)	115.94	10	113.63	9.91
Housing company loans	1043.16	90	1033.35	90.09
Substitute assets	0	0	0	0
Total	1159.1	100	1146.98	100

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Table 4

### Key credit metrics

	--As of June 30, 2025--		--As of June 30, 2024--	
	Residential mortgages (housing loans)	Commercial mortgages (housing company loans)	Residential mortgages (housing loans)	Commercial mortgages (housing company loans)
Weighted-average effective LTV ratio (%)*	54.71	N/A	53.04	N/A
Weighted-average cover pool current LTV ratio (%)§	53.01	18.51	50.59	18.5
Weighted-average loan seasoning (months)†	84.14	89.97	75.29	74.23
Buy-to-let loans (%)	3.18	N/A	5.26	N/A
Self-employed borrowers (%)	8.69	N/A	10.44	N/A
Equal installment mortgages (%)	7.52	N/A	9.2	N/A
Credit analysis results:				
WAFF (%)	7.02	17.5	9.51	19.94
WALS (%)	14.92	7.41	14.77	7.21
<b>Combined credit analysis results</b>	<b>As of June 30, 2025</b>	<b>As of June 30, 2024</b>		
WAFF (%)	16.45	18.91		
WALS (%)	8.17	7.96		
'AAA' credit risk (%)	3.71	4.27		

\*The effective LTV corresponds to 100% of current indexed whole loan LTVs for the WAFF calculation. §Weighted-average current indexed LTV based on current balance. †Seasoning refers to the elapsed loan term. ‡Floored by the largest obligor default test result applicable under our CRE criteria. LTV--Loan to value. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity. N/A--Not applicable.

Table 5

### Loan-to-value ratios

Residential mortgages (housing loans, %)	--As of June 30, 2025--		--As of June 30, 2024--	
	Effective whole loan LTV (%)*	Cover pool current LTV (based on current balance, %)	Effective whole loan LTV (%)*	Cover pool current LTV (based on current balance, %)
0-70	73.98	78.05	74.16	78.81
70-80	14.47	12.95	10.41	10
80-90	8.04	5.64	9.01	7.24
90-100	1.63	2.13	4.38	3.46
Above 100	1.88	1.24	2.03	0.48
Weighted-average LTV ratio	54.71	53.01	53.04	50.59
<b>Commercial mortgages (housing company loans, %)</b>				
0-40	N/A	94.2	N/A	93.79
40-50	N/A	4.3	N/A	3.81
50-60	N/A	0.53	N/A	1.58
60-70	N/A	0.97	N/A	0.82
Above 70	N/A	0	N/A	0
Weighted-average LTV ratio	N/A	18.51	N/A	18.5

\*100% of current indexed whole-loan LTV ratio. LTV--Loan-to-value. N/A--Not applicable.

Table 6

**Loan seasoning distribution\***

	--As of June 30, 2025--		--As of June 30, 2024--	
	Residential mortgage loans' seasoning (% of current residential loan balance)	Commercial mortgage loans' seasoning (% of current commercial loan balance)	Residential mortgage loans' seasoning (% of current residential loan balance)	Commercial mortgage loans' seasoning (% of current commercial loan balance)
0-5	26.61	22.2	50.72	34.49
5-6	18.59	6.63	3.26	6.88
6-7	22.85	8.47	9.24	18.09
7-8	8.11	19.39	2.79	10.02
8-9	4.59	13.73	1.16	9.96
9-10	4.46	13.62	2.70	8.7
More than 10	12.01	15.96	28.81	11.85
Weighted-average loan seasoning (months)	84.14	89.97	74.23	74.23

\*Seasoning refers to the elapsed loan term.

Table 7

**Geographic distribution of loan assets**

	--As of June 30, 2025--		--As of June 30, 2024--	
	% of residential loan balance current balance	% of commercial loan balance (housing company loans)	% of residential loan balance current balance	% of commercial loan balance (housing company loans)
Southern Finland	91.99	73.19	91.53	72.7
Eastern Finland	0.08	0.08	0.16	0.13
Western Finland	7.6	23.39	7.52	24.11
Oulu	0.34	3.34	0.33	2.95
Lapland	0	0	0.46	0.11
Aland	0	0	0	0
Total	100	100	100	100

By applying our credit and cash flow stresses, we calculate a TCE of 9.4% (down from 19.4 % previously) and a 'AAA' credit risk of 3.7% (down from 4.3% previously). Under our updated covered bonds criteria, we did not apply spread compression and basis risk stresses, given their limited impact on our cash flow analysis. The lower 'AAA' credit risk is mainly due to the removal of these stresses and lower mortgage assets' credit coverage. Also, the TCE decreased primarily due to our lower target asset spread assumptions, and the application of our base-case asset spread when modelling refinancing costs under our updated criteria. The improvement in these metrics is partially offset by lower excess spread in the program. This is driven by a higher interest rate mismatch between cover pool assets and outstanding covered bonds, following Hypo's fourth fixed-rate covered bond issuance, which was not hedged for interest rate risk. The impact is further exacerbated by lower market rates than last year.

With available credit enhancement of 17.9% exceeding the TCE, the maximum potential collateral-based uplift above the JRL is four notches. No deductions apply to these four notches owing to Hypo's overcollateralization commitment and because we consider the covered bonds'

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soft-bullet maturity mitigates short-term liquidity risk. Therefore, the achieved collateral support uplift is four notches above the JRL. With a JRL of 'aa-' three notches are used to achieve 'AAA' ratings with an overcollateralization requirement of 6.6%, equivalent to 'AAA' credit risk plus 50% refinancing costs. As a result, there is one unused notch of collateral-based uplift.

Table 8

### Collateral uplift metrics

	As of Sept 30, 2025	As of June 30, 2024
Asset WAM (years)	8.27	8.74
Liability WAM (years)	4.5	5.25
Available credit enhancement	17.91	27.43
AAA credit risk (%)	3.71	4.27
Required credit enhancement for first notch of collateral uplift (%)	3.71	8.05
Required credit enhancement for second notch of collateral uplift (%)	3.71	11.83
Required credit enhancement for third notch of collateral uplift (%)	6.58	15.62
Target credit enhancement for maximum uplift (%)	9.44	19.4
Credit enhancement commensurate with the rating (%)	6.58	15.62
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

Table 9

### Hypo CBA CB program vs other Finnish covered bond programs

Program name	The Mortgage Society of Finland CBA	The Mortgage Society of Finland	POP Mortgage Bank	SP Mortgage Bank CBA	SP Mortgage Bank MCBA	OP Mortgage Bank	S-Bank
Overview							
Jurisdiction	Finland	Finland	Finland	Finland	Finland	Finland	Finland
Covered bond type	LCB	LCB	LCB	LCB	LCB	LCB	LCB
Outstanding assets (mil. EUR)	1159.1	955.06	679.7	2833.6	1318.9	8245.3	3125
Outstanding covered bonds (mil. EUR)	1200	750	500	1750	1000	7550	1000
Cover pool composition	Residential: 10% Commercial:90%	Residential: 28,2% Commercial: 71,8%	Residential: 100%	Residential: 100%	Residential: 100%	Residential: 100%	Residential: 100%
Rating details							
Issuer credit rating*	BBB	BBB	BBB	A-	A-	AA-	BBB+
Reference rating level	a-	a-	a-	a+	a+	aa+	a
Jurisdictional-supported rating level	aa-	aa-	aa-	aa+	aa+	aaa	aa
Covered bonds rating	AAA/Stable	AAA/Stable	AAA/Stable	AAA/Stable	AAA/Stable	AAA/Stable	AAA/Stable
Total unused notches	1	1	1	3	3	6	2
Credit analysis							
Mortgage WAFF (%)	16.45	13.01	18.37	15.37	8.85	12.57	17.43

## Hypo CBA CB program vs other Finnish covered bond programs

Mortgage WALs (%)	8.17	8.28	28.7	22.55	14.78	11.71	23.59
Overcollateralization (OC)							
Available OC (%)	17.91	27.34	35.94	61.92	27.44	10.74	217.91
Asset default risk (%)	3.71	3.6	7.15	6.42	2.5	2.5	6.99
Target credit enhancement (%)	9.44	5.53	12.49	10.05	8.65	4.58	13.48
OC consistent with current rating (%)	6.58	3.6	9.82	6.42	2.5	2	6.99
Cash-flow analysis as of	30-Sep-25	30-Jun-25	30-Sep-25	30-Sep-25	31-Mar-25	31-Mar-25	30-Jun-25

\*As a starting point of the analysis, we may use the issuer credit rating on the relevant parent or guarantor when the issuer is not rated but belongs to a group with a rated parent or payments under the covered bonds are guaranteed by another rated entity.  
 LCB--Legislation-enabled covered bonds. WAFF--Weighted-average foreclosure frequency.  
 WALs--Weighted-average loss severity. OC--Overcollateralization.

## Counterparty risk

We analyze counterparty risk under our updated covered bonds criteria. It does not constrain the ratings on the program and related issuances.

### Bank account provider

Borrowers make mortgage payments into external bank accounts, which are either in Hypo's name or in the name of its wholly owned subsidiary. Given Hypo's RRL of 'a-', we rely on the bank's ability to manage counterparty risk associated with its bank account providers. Furthermore, Hypo is committed to replace the account bank providers within 90 calendar days if they are downgraded below 'BBB'.

As part of our analysis of operational and administrative risks, we apply a forward-looking assessment of the issuer's maintenance of credit support. We expect Hypo to continue maintaining credit support for its covered bonds and therefore currently do not stress commingling risk in our cash flow analysis.

### Swaps

Hypo has entered into liability swap agreements with Swedbank AB, Danske Bank A/S, Natixis SA, and Nordea Bank Abp on two out of the four currently outstanding covered bonds issued under the program. These swaps hedge the interest rate risk arising from the variable interest rate paying assets and the fixed interest paying covered bonds. We consider these hedges in our cash flow analysis and model these two covered bonds as floating rate-paying, corresponding to the floating rate of interest payable by Hypo to these counterparties under the swaps.

To derive the maximum potential rating on the covered bonds, under our updated criteria, we consider whether the counterparties are related to the issuer, the seniority of termination

payments, and the presence of an effective replacement framework. All four counterparties are unrelated to Hypo, and we use their corresponding RCRs (Nordea: 'AA-', Danske 'AA-', Swedbank 'AA-' and Natixis 'AA-') as the applicable counterparty rating when assessing counterparty risk. We also consider that the documented replacement framework meets the conditions of effectiveness as outlined in our covered bonds criteria.

### Sovereign risk

We analyze sovereign risk using our structured finance ratings above the sovereign criteria (see "[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 within a monetary union that include 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 country risk. As a result, we can rate the covered bonds up to five notches above the sovereign rating. Given our 'AA+' long-term rating on Finland, sovereign risk does not constrain our ratings on the covered bonds.

## Environmental, Social, And Governance

Environmental, social, and governance considerations have no material influence on 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 commits to maintain an overcollateralization level for the program to maintain the ratings on the covered bonds. Furthermore, the bonds' soft-bullet repayment structure mitigates liquidity risk. Both governance initiatives support the current ratings, and the credit enhancement required for to maintain them.

## Related Criteria

- [Methodology For Rating Covered Bonds](#), July 25, 2025
- [Counterparty Risk Methodology](#), July 25, 2025
- [Asset Isolation And Special-Purpose Entity Methodology](#), May 29, 2025
- [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
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