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Ratings

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Presale:

Sp Mortgage Bank PLC CBA Mortgage Covered Bond Program

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Reference Rating Level	A+
Resolution Regime Uplift	+2
Systemic Importance	Very Strong
Resolution Counterparty Rating	A
ICR Or Parent Bank Rating Or Guarantor Rating	A-*

+

Jurisdiction-Supported Rating Level	aa+
Assigned Jurisdictional Support Uplift	+3
Jurisdictional Support Assessment	Very Strong
Legal Framework	Very Strong
Systemic Importance	Very Strong
Sovereign Credit Capacity	Very Strong

+

Maximum Achievable Covered Bond Rating	aaa
Collateral Support Uplift	+4
OC Adjustment	0
Liquidity Adjustment	0
Potential Collateral Based Uplift	+4

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Covered Bond Rating	AAA/Stable(prelim)
Rating Constraints	aaa
Counterparty Risk	aaa
Country Risk	aaa

*As a starting point of the analysis, we may use the ICR of the parent or guarantor when the issuer is not rated, but it belongs to a group with a rated parent or payments under the covered bonds are guaranteed by another rated entity. ICR--Issuer credit rating.

Major Rating Factors

Strengths

- The proposed cover pool of prime Finnish residential loans forms a granular and well-seasoned portfolio.
- The proposed structure benefits from a public commitment to maintain overcollateralization consistent with a preliminary 'AAA' rating.
- Liquidity risk is mitigated by the bonds' soft-bullet repayment profile..

Weaknesses

- About three quarters of the cover pool are constant annuity loans, which could potentially result in delayed repayment of mortgage assets in a high interest rate environment, in our view.
- The cover pool contains a high share of loans with subordinated claims, which increases loan-to-value ratios and therefore leads to higher default probability of the borrower, in our view.
- Commingling risk in the transaction is not contractually or structurally addressed. We size this risk in the credit enhancement commensurate with the 'AAA' rating.

Outlook: Stable

S&P Global Ratings' stable outlook on the preliminary 'AAA' ratings on Sp Mortgage Bank PLC's (SPMB) CBA mortgage covered bond program and the inaugural issuance reflects the cushion of two unused notches of collateral-based uplift that would protect the ratings on the covered bonds if we were to lower the long-term issuer credit rating (ICR) on the Central Bank of Savings Banks Finland PLC (parent) by two notches.

All else being equal, we would lower our ratings on the covered bonds if we lowered our rating on Central Bank of Saving Banks Finland by more than two notches or if the available overcollateralization no longer exceeds the level that is commensurate with 'AAA' ratings.

Rationale

We have assigned our preliminary 'AAA' credit ratings to SPMB's mortgage covered bond program and its inaugural public issuance (see "Sp Mortgage Bank Finnish CBA Covered Bond Program And First Issuance Assigned Preliminary 'AAA' Rating; Outlook Stable," published on Oct. 19, 2022).

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.

From our analysis of SPMB's mortgage covered bond program and the Finnish covered bond legislation, we consider that the assets are effectively isolated for the benefit of the covered bondholders if the issuer becomes insolvent. The protection of the cover pool assets and the continued management of the cover pool allows us to elevate the rating on the covered bonds above the rating on Central Bank of Savings Banks Finland PLC (parent).

SPMB belongs to the Savings Banks Amalgamation. We conducted a review of SPMB's mortgage operations, which we view as prudent. We believe satisfactory procedures are in place to support our preliminary ratings on the covered bond and the program.

SPMB is domiciled in Finland, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). We consider that mortgage covered bonds have a very strong systemic importance in Finland. These factors increase the likelihood that SPMB 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. We have therefore assigned two-notches of uplift above the rating on Central Bank of Savings Banks Finland PLC (parent) to determine the covered bonds' reference rating level (RRL).

We considered the likelihood for the provision of jurisdictional support. Based on a very strong jurisdictional support assessment for mortgage programs in Finland, we assigned three notches of uplift from the RRL to determine the jurisdiction-supported rating level (JRL).

We have reviewed the asset information provided as of Aug. 31, 2022. The €1.003 billion cover pool balance comprises Finnish residential mortgage loans. Based on our cash flow analysis, the available credit enhancement in the program exceeds the target credit enhancement, which means that the covered bonds are eligible for up to four notches of collateral-based uplift. We do not reduce the total collateral-based uplift owing to the program's committed overcollateralization and because we consider that the liabilities' soft-bullet structure mitigates liquidity risk.

There are no rating constraints to the preliminary 'AAA' ratings relating to legal, counterparty, or sovereign risks.

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

The preliminary ratings are based on the latest information available to us as of the date of this publication. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Final ratings are contingent on our review of final program documentation. Alternatively, upon receiving the issued bond's terms and conditions, the final ratings will not differ from the preliminary ratings if there are no material changes to the collateral composition, and the available credit enhancement continues to be at least equal to the overcollateralization commensurate with the rating, all else being equal.

Program Description

Table 1

Program Overview*

Jurisdiction	Finland
Year of first issuance	2022
Covered bond type	Legislation-enabled
Outstanding covered bonds (mil. €)	750
Redemption profile	Soft-bullet
Underlying assets	Finnish residential mortgage loans
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	24.33
Credit enhancement for current rating (%)§	17.89
Available credit enhancement (%)	33.75
Collateral support uplift	1
Unused notches for collateral support	3
Total unused notches	2†

*Based on cash flows as of August 2022. §Level of credit enhancement corresponding to 'AAA' credit risk plus 25% of refinancing costs. †There are two unused notches of collateral-based uplift in this program given that if we were to lower our rating on Central Bank of Savings Banks Finland PLC (parent), we would also lower our ratings on the covered bonds as per our counterparty risk criteria, all else being equal (see 'Counterparty risk').

SPMB is a part of the Savings Banks Group Finland with joint and several liability between the amalgamation members. The Group comprises Sp Central Bank, 16 independent savings banks, Sp Mortgage Bank, and product companies (not covered by joint and several liability). The cover pool is solely for the benefit of the covered bondholders.

SPMB was established in March 2016 to provide competitive funding to the savings banks. The mortgage covered bonds will be issued under SPMB's €3 billion program for the issuance of covered bonds. The program was established in November 2016 and now incorporates two cover pools serving two sets of covered bond issuances. The two cover pools as well as the covered bonds backed by these cover pools are separate entities. The current, newly established entity is governed by the Covered Bond Act (CBA Mortgage Covered Bond Program) while SPMB's existing covered bonds continue to be governed by the Mortgage Covered Bond Act (MCBA Mortgage Covered Bond Program). The covered bonds issued from the CBA Mortgage Covered Bond Program rank pari passu among themselves but do not in any form relate to the MCBA Mortgage Covered Bond Program. Covered bondholders and derivative counterparties related to the CBA Mortgage Covered Bond Program have a priority claim only on the loans registered in the CBA Mortgage covered bond program. Covered bondholders and derivative counterparties related to the MCBA Mortgage Covered Bond Program have a priority claim only on the loans registered in the MCBA Mortgage covered bond program.

The covered bond issued under this program is the issuer's direct unconditional and unsubordinated debt obligation and is secured on a cover pool of euro-denominated Finnish residential mortgage loans.

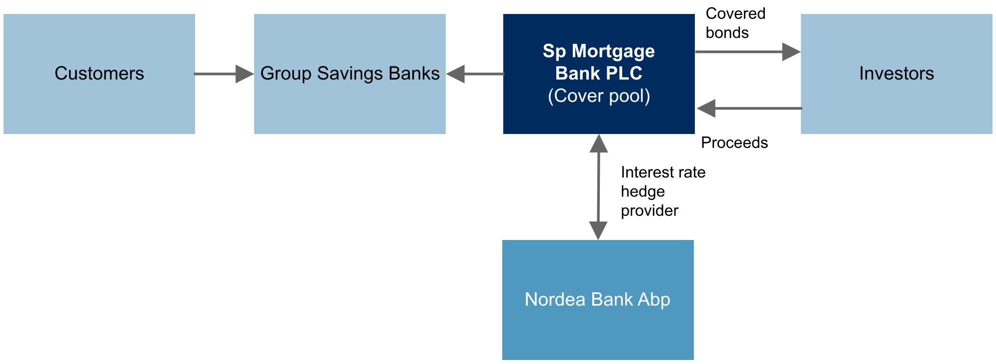
The proposed €750 million inaugural fixed-rate covered bond will have a five-year scheduled maturity, with a one-year maturity extension. During the extension period, the bond will pay one-month EURIBOR plus a margin. The issuer will enter into an interest rate swap with Nordea Bank Abp.

The initial cover pool comprises loans transferred from the savings banks in the network to SPMB's balance sheet. We understand that the issuer is also planning to add intermediary loans to the cover pool in 2022. Intermediary loans are funding instruments for the savings banks within the Group.

The Finnish covered bond law allows deposit banks and credit societies to participate indirectly in the issue of covered bonds by means of intermediary loans granted by a mortgage credit bank. These intermediary loans are backed by mortgage loans that are registered in the issuer's cover pool and serve as collateral for the benefit of covered bond noteholders.

The mortgage borrowers make their payments to their respective bank accounts in the group's member banks. The payments made by mortgage borrowers are only registered as part of the cover pool after the insolvency of the issuer. While this mechanism protects mortgage payments post issuer default, funds standing or paid in the collection accounts pre issuer insolvency would be exposed to commingling risk. This is because these collections are not segregated in the cover pool.

Sp Mortgage Bank CBA Mortgage Covered Bond Program



The covered bond will benefit from a commitment made by SPMB to maintain a level of overcollateralization sufficient to support the rating on the covered bond.

Table 2

Program Participants

Role	Name	Rating	Rating dependency
Issuer	SP Mortgage Bank PLC	NR*	Yes
Interest rate hedge provider	Nordea Bank Abp	AA-/Stable/A-1+	Yes

*We apply the potential notches of uplift to the long-term rating on Central Bank of Savings Banks Finland PLC (parent) to derive the ratings on the covered bonds. NR--Not rated.

Rating Analysis

Legal and regulatory risks

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

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

In our opinion, the CBA satisfies the relevant legal aspects of our covered bond criteria. We have concluded that the cover pool assets are effectively isolated for the benefit of covered bondholders. The protection of the assets and the continued management of the cover pool allows us to rate the covered bond program above our rating on Central Bank of Savings Banks Finland PLC (parent).

Under the CBA, 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 bond based on its legal final maturity.

The CBA 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 management of the register, including the recording of assets, and the issuer must regularly report the information in the register to the FIN-FSA.

The cover pool 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.

The CBA allows deposit banks and credit societies to participate indirectly in the issue of covered bonds via intermediary loans granted by a mortgage credit bank. We consider the security of the collateral backing intermediary loans to be comparable to direct transferred mortgage loans. We therefore perform our analysis relying directly on the inflows from the mortgage loans that guarantee these intermediary loans.

Under the CBA, issuers must have 2% overcollateralization on a net present value (NPV) basis. This requirement increases to 5% on an NPV basis if certain requirements of article 129 of the Capital Requirements Regulation are not fulfilled.

The CBA introduces a 180-day liquidity requirement under which the cover pool must include sufficient substitute assets to meet the maximum net outflow connected to the covered bonds during the upcoming 180-day period. We understand that in calculating the net outflow related to the covered bonds, issuers may consider the extension of the maturity of the covered bonds.

Furthermore, the CBA allows covered bonds with a 12-month maturity extension, subject to approval by the FIN-FSA and certain conditions being met, including:

- The issuer being unable to obtain long-term financing from ordinary sources;
- The issuer being unable to meet the liquidity requirement under the CBA upon payment of the covered bonds; and
- The extension not affecting the order of the maturity based on the original maturity dates of covered bonds secured by the same cover pool.

If the issuer becomes insolvent, the FIN-FSA would appoint a supervisor to supervise management of the cover pool. 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 the interests of covered bondholders with powers to direct the issuer's general administrator.

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 CBA, bondholders and derivative counterparties have a priority of payment right to 100% of the properties' value, although only 80% of the market value of residential properties and 60% of the market value of commercial estate properties can be included in the determination of overcollateralization for regulatory purposes.

The CBA excludes setoff against cover pool assets and claw-back risk.

Operational and administrative risks

Our analysis of operational and administrative risks follows the guidelines in our covered bond ratings framework criteria.

Sp Mortgage Bank does not originate loans, but depends on the savings banks' network, which currently comprises 16 savings banks. Credit decisions of the savings banks are made based on lending guidelines issued by Sp Mortgage Bank, and the savings banks are bound to repurchase any loans that would not be compliant with the guidelines. We view Sp Mortgage Bank's underwriting criteria as comparable with market standards in Finland.

We believe that it is highly likely that a replacement servicer would be appointed if the issuer were to become insolvent. We consider Finland to be an established covered bond market and we believe that the mortgage assets in Sp Mortgage Bank's cover pool do not have product features that would materially limit the range of available replacement cover pool managers or servicers. We have modelled a servicing fee we deem sufficient to attract a replacement servicer.

We consider the issuer's underwriting and servicing standards to be sufficient to support our ratings on the covered bonds. We therefore did not apply any analytical adjustments to account for operational and administrative risks.

Resolution regime analysis

SPMB is domiciled in Finland, which is subject to the EU's BRRD. We assess the systemic importance for Finnish mortgage programs as very strong. Under our covered bonds criteria, this means that the RRL is the greater of (i) the issuing bank's ICR, plus up to two notches for programs in jurisdictions with effective resolution regimes that exempt covered bonds from bail-in, and (ii) the resolution counterparty rating (RCR) on the issuing bank, where applicable. Where the issuer is not rated but belongs to a group with a rated parent, we may use the ICR on the parent as a starting point of the analysis. Given the 'A-' long-term ICR and the 'A' RCR on Central Bank of Savings Banks Finland PLC, the RRL is 'a+'.

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 because the law exempts covered bonds from bail-in risk if there is a bank resolution. We consider this as an internal form of support because the bail-in of certain creditors of the issuer does not require direct government support.

Jurisdictional support analysis

In our jurisdictional support analysis, we assess 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 programs is very strong. In addition, our sovereign rating on Finland (AA+/Stable/A-1+) does not constrain the JRL. Under our covered bonds criteria, the covered bonds therefore receive three notches of jurisdictional uplift over the RRL.

Collateral support analysis

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," published on Jan. 25, 2019).

The cover pool comprises Finnish residential mortgage loans. We base our analysis on loan-by-loan data as of Aug. 31, 2022. We view the €1.003 billion cover pool as granular and well-seasoned.

The pool comprises loans granted to borrowers with multiple loan parts and, on some occasions, backed by different properties. To capture the full risk exposure as well as all collateral backing the exposures, we receive risk group information from the issuer and aggregate the loan-by-loan data based on this information. The loan-to-value (LTV) ratios that we base our analysis on reflect aggregated data.

Under the CBA, mortgage loans are included in the cover pool for a covered bond for their total value and not only their haircut value. The latter is used to determine compliance with the regulatory overcollateralization requirement (80% of the property's value for residential housing loans). This approach is more beneficial for covered bondholders than the approach taken in the previous legislation (Mortgage Covered Bond Act, MCBA), according to which mortgage loans were included in the cover pool only to a maximum amount corresponding to 70% of the property's value for residential housing loans.

As under the CBA, bondholders and derivative counterparties have a priority of payment right on 100% of the properties' value, we believe it is appropriate to base the available overcollateralization on the entire current balance and not just the portion that the regulatory overcollateralization is based on. In order to fully capture potential losses in the cover pool, we based our loss calculation in our credit analysis on the entire current balance of the loan as well.

For the loans in the pool, our analysis estimated the foreclosure frequency and the loss severity 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 calculated a weighted-average foreclosure frequency (WAFF) and a weighted-average loss severity (WALS) assuming 'AAA' credit stresses. The product of these two variables (credit cover) estimates the required loss protection, in the absence of additional factors. 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.

At a 'AAA' level of stress, the WAFF is 16.19% and the WALS is 21.30%, yielding a credit cover of 3.45%.

The main drivers of the WAFF in this portfolio are a large proportion (69%) of constant annuity loans, which attract an increase to the base foreclosure frequency to account for a potential payment shock, and a relatively high share of loans to self-employed borrowers. Further, the exposure of residential loans in the West of Finland (40%) exceeds our regional concentration limit of 35% and attracts a 20% increase to their base foreclosure frequency on the excess above the limit.

Constant annuity loans feature equal instalments throughout their entire life (usually 20-25 years at inception). Interest rate increases or decreases are managed through the maturity date, which can be pulled forward or pushed back accordingly, up to a maximum of 10 years. We understand that the maturity date of these loans would not automatically extend if the borrower owes a large bullet payment due to high interest rates slowing down the amortization pattern. In order to take into account the payment shock that may arise for this particular type of product, should interest rates rise to a level that would require a bullet payment at the end of the extension period, we have modelled an increased base foreclosure frequency on these loans (1.2x adjustment to the base WAFF).

Under our global RMBS criteria, we apply multiples to the base foreclosure frequency based on the effective LTV ratio. We have determined a weighted-average effective LTV for the cover pool of 67%, as of Aug. 31, 2022. This figure is based solely on current whole loan LTVs. Given the current whole loan LTV distribution of the assets, the dominant share of the cover pool benefit from a reduction to their base foreclosure frequency. This benefit is limited by the relatively large share of subordinated claims. About one-fifth of the cover pool comprises loans, to which various subordinated claims are attached. This leads to higher total exposure to individual borrowers, which we model via higher LTV ratios in our foreclosure frequency calculation.

Table 3

Cover Pool Composition

	As of Aug. 31, 2022	
Asset type	**Cover Pool Balance (mil. €)**	**Percentage of cover pool (%)**
Finnish residential mortgage loans	1,003.11	100.00
Substitute assets	0.00	0.00
Other asset type	0.00	0.00
Total	1,003.11	100.00

Table 4

Key Credit Metrics

	As of Aug. 31, 2022
Average loan size (€)	71,835
Weighted-average effective LTV ratio (%)*	66.59
Weighted-average cover pool current LTV ratio (%)§	57.08
Weighted-average loan seasoning (months)†	67.74
Balance of loans in arrears (%)	0
Buy-to-let loans (%)	8.5
Self-employed borrowers (%)	18.13
Constant annuity loans (%)	68.67
Credit analysis results:	
WAFF (%)	16.19
WALS (%)	21.3
'AAA' credit risk (%)	15.74

*The effective LTV is the result of the application of our global RMBS criteria, which weight 100% of current indexed whole loan LTV for the WAFF calculation. §Weighted-average current indexed LTV based on current balance. †Seasoning refers to the elapsed loan term. LTV--Loan to value. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Table 5

Current LTV Ratios

	As of Aug. 31, 2022	
(%)	Effective whole loan LTV (%)*	Cover pool current LTV (%)§
0-40	17.36	24.22
40-50	10.78	12.39
50-60	14.6	16.2
60-70	15.59	15.75
70-80	13.86	13.28
80-90	11.89	10.97
90-100	8.95	6.73
Above 100	6.97	0.46
Weighted-average LTV ratios	66.59	57.08

*100% of current indexed whole loan LTV. §Current LTV based on current balance. LTV--Loan-to-value.

Table 6

Loan Seasoning Distribution*

	As of Aug. 31, 2022
	Percentage of portfolio (%)
Less than 24 months	22.46
24-48	20.88
48-60	9.07
60-72	7.84
72-84	7.41
84-96	6.99
96-108	5.73
108-120	4.75
More than 120	14.87
Weighted-average loan seasoning (months)	67.74

*Seasoning refers to the elapsed loan term.

Table 7

Geographic Distribution Of Loan Assets

	As of Aug. 31, 2022
	Percentage of current pool balance (%)
Southern Finland	43.72
Eastern Finland	8.24
Western Finland	39.86
Oulu	6.32
Lapland	1.79
Aland	0.07
Total	100

The main drivers behind the WALS for residential properties are current LTV ratios after house price indexation and market value decline assumptions. While both the WAFF and the WALS are based on updated valuations, the loss severity does not incorporate exposure to subordinated claims. Given the relatively high share of loans (about one-fifth of the cover pool) with subordinated claims attached to them, the current LTV ratio (57%) used for our loss calculations is lower than the effective LTV ratio that we base our default probability on (67%).

Finnish property prices have generally risen since 1996 but have stabilized in recent years. House prices and income levels have tended to move in tandem, and our analysis currently considers the Finnish residential properties slightly undervalued.

The results of our credit analysis 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 preliminary rating, to make timely payment of interest and ultimate payment on principal to the covered bond on its legal final maturity. We have performed our cash-flow analysis as of Aug. 31, 2022.

We have modeled a proposed inaugural covered bond with a notional balance of €750 million, and a five-year scheduled term to maturity with a one-year maturity extension and post swap cashflows.

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

The proposed structure is exposed to structural asset-liability mismatch risk because the covered bonds' repayment profile is not aligned with that of the assets. Our model simulates a stressed sale of assets whenever a liquidity gap occurs in our analysis. The discount applied for residential mortgage assets is 425 basis points, on top of the stressed interest rate at the time of the shortfall. This discount is a function of the nature of the assets.

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 that a percentage of the higher-yielding loans exit the portfolio. We also stressed basis risk.

In addition, we modelled commingling risk by sizing half months' worth of collection loss in our cash flow model because payments from the cover pool are not segregated in the cover pool before the insolvency of the issuer.

SPMB's inaugural issuance pays a fixed rate of interest. To mitigate interest rate risk arising from the floating-rate assets, the issuer has entered into a swap agreement. We take this hedge into account in our cash flow analysis (see "Counterparty risk").

Our 'AAA' credit risk shows the amount of overcollateralization commensurate with our credit risk assessment. Our 'AAA' credit risk metric includes stressed assumptions on asset default and recovery rates, stressed interest rates and transaction costs, commingling risks, and the liability profile, assuming no asset liability mismatch. This measure is commensurate with 15.74% overcollateralization, as of August 2022.

In addition to 'AAA' credit risk, our target credit enhancement also includes the additional credit enhancement that we expect is required to refinance the cover pool in a stressed environment. As of the cut-off date, we calculate a target credit enhancement of 24.33%, below the available credit enhancement of 33.75%.

Because we consider there is an active secondary market for the type of assets seen in the cover pool, under our covered bonds criteria, the program can potentially benefit from up to four notches of collateral-based uplift above the JRL. From this potential uplift, we make no deductions because SPMB's soft-bullet covered bond features a 12-month maturity extension, which satisfies the liquidity coverage requirement under our criteria. Furthermore, SPMB commits to maintaining an overcollateralization level commensurate with the assigned preliminary rating. Therefore, the maximum collateral uplift is four notches, allowing the covered bond to attain a preliminary 'AAA' rating.

The program needs only one notch to reach the 'AAA' rating, therefore three notches of collateral-based uplift are unused. Considering our counterparty risk criteria, these three unused notches reduce to two (see "Swaps").

The overcollateralization commensurate with a 'AAA' preliminary rating is 17.89%, determined by 'AAA' credit risk plus 25% refinancing costs.

Table 8

Collateral Uplift Metrics

	As of Aug. 31, 2022
Asset WAM (years)	9.03
Liability WAM (years)	6.25
Available credit enhancement	33.75
Required credit enhancement for coverage of 'AAA' credit risk (%)	15.74
Required credit enhancement for first notch of collateral uplift (%)	17.89
Required credit enhancement for second notch of collateral uplift (%)	20.04
Required credit enhancement for third notch collateral uplift (%)	22.18
Target credit enhancement for maximum uplift (%)	24.33
Potential collateral-based uplift (notches)	4
Adjustment for liquidity (Y/N)	N
Adjustment for committed overcollateralization (Y/N)	N
Achievable collateral support uplift (notches)	4

WAM--Weighted-average maturity.

Counterparty risk

We analyze counterparty risk under our criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019.

Bank account provider

Borrowers will make mortgage payments to the bank account of the member bank that originated the loans. These payments are only registered as part of the cover pool after the insolvency of the issuer. While this mechanism protects mortgage payments post issuer default, funds standing or paid in the collection accounts pre issuer insolvency would be exposed to commingling risk. This is because these collections are not segregated in the retained cover pool. We took this risk into account in our analysis by assuming that half month of collections is lost.

Swaps

The proposed structure benefits from a liability hedge with Nordea to swap the fixed interest rate on the covered bonds into variable interest, the same interest basis earned on the assets.

To derive the maximum potential rating on the covered bonds under our counterparty criteria, we consider various factors, including whether the counterparty is related to the issuer, the seniority of termination payments, the replacement commitment, and the collateral posting framework. Nordea 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, Nordea has committed to replace itself if the RCR falls below 'A-'. If Nordea fails to meet this commitment, an additional termination event would allow the issuer to terminate the derivative agreement. Furthermore, if we lower our RCR on Nordea below 'A-', it has committed to post collateral sufficient to cover the issuer's exposure to it, plus certain volatility risks in the swap value. We categorize the current collateral-posting framework in the derivative contracts as strong.

The collateral framework assessments, combined with the current RRL on the issuer and the counterparty replacement trigger ('A-'), support a maximum potential rating of 'AAA' under our counterparty risk assessment. However, if we were to lower our rating on Central Bank of Savings Banks Finland PLC (parent) by more than two notches, we would also lower our ratings on the covered bonds, all else being equal. As a result, the program currently benefits from two unused notches of collateral-based uplift.

Sovereign risk

We analyze sovereign risk according to our "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019. Under our structured finance sovereign risk criteria, covered bonds backed by residential mortgages issued in a jurisdiction that is 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 bond up to five notches above the sovereign rating. Given our 'AA+' long-term rating on Finland, sovereign risk does not constrain our rating on the covered bonds.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our preliminary credit rating analysis of SPMB's mortgage covered bonds. 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. SPMB commits to maintain a level of overcollateralization in the program to maintain the rating on the covered bonds. Further, the bonds' soft-bullet repayment structure mitigates liquidity risk.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
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