

Sp Mortgage Bank Finnish Mortgage Covered Bond Program And Issuance Assigned 'AAA' Ratings; Outlook Stable

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OVERVIEW

- We have assigned our 'AAA' ratings to Sp Mortgage Bank's mortgage covered bond program and €500 million, five-year inaugural issuance.
- Our ratings reflect our review of the program under our covered bonds criteria and that the available credit enhancement exceeds the required credit enhancement for a 'AAA' rating.
- The outlook on our ratings is stable and reflects two unused notches of collateral-based uplift under our covered bonds criteria.

LONDON (S&P Global Ratings) Nov. 29, 2016--S&P Global Ratings today assigned its 'AAA' ratings to Sp Mortgage Bank PLC's mortgage covered bond program and inaugural issuance. The outlook on the ratings is stable.

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. We have analyzed the pool of residential Finnish mortgage loans by applying our "Methodology And Assumptions For Analyzing Mortgage Collateral In Finnish And Norwegian Covered Bonds" criteria, published on Dec. 10, 2014.

From our analysis of the program's documents, legal opinions, and the Finnish legislative covered bond framework, we have concluded that the assets in the

cover pool are isolated from the issuer's and the issuer's group's insolvency risk. The asset isolation allows us to rate the covered bond program at a higher rating level than the long-term issuer credit rating on the Central Bank of Savings Banks Finland PLC (BBB+/Positive/A-2). We consider the rating on the Central Bank of Savings Banks Finland to represent the "savings banks group" to which the issuer is core under our group rating methodology.

For this reason, we derive the starting point of our analysis from the long-term ICR on the Central Bank of Savings Banks, whose rating reflects the creditworthiness of the wider savings bank group. Sp Mortgage Bank is domiciled in Finland, which applies the EU's Bank Recovery and Resolution Directive (BRRD). We assess the systemic importance of covered bonds in Finland as very strong. A successful resolution of the savings bank group increases the likelihood that the issuer would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of the bank's senior unsecured obligations. Therefore, under our covered bonds criteria, we assess the reference rating level (RRL) at 'a', two notches above the long-term ICR on the issuer, adjusted for any sovereign support.

We then consider the likelihood of jurisdictional support, which we assess as very strong for mortgage covered bond programs in Finland. This leads us to apply three notches of uplift from the RRL to determine the jurisdiction-supported rating level (JRL), which we therefore assess as 'aa'.

Based on cash flows as of November 2016, the available credit enhancement of 31.15% exceeds the 22.16% credit enhancement that is commensurate with a 'AAA' rating. The available credit enhancement is also commensurate with the 29.38% target credit enhancement corresponding to a fourth notch of collateral uplift.

We have sized commingling risk based on a projected quarterly review of the program's cash flows.

Our 'AAA' ratings are not constrained by legal, operational, counterparty, or country risks.

The stable outlook on our ratings on Sp Mortgage Bank's mortgage covered bonds reflects the fact that the ratings on the covered bonds benefit from two unused notches of collateral-based uplift under our covered bonds criteria. We would not necessarily lower our ratings on the covered bonds if we were to lower our long-term ICR by up to two notches or our long-term rating on Finland by up to three notches. We could lower our ratings on the covered bonds if the available credit enhancement were to decrease below the overcollateralization that is commensurate with their maximum achievable ratings under our criteria.

RELATED CRITERIA

- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 08, 2016
- Criteria - Structured Finance - Covered Bonds: Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria - Structured Finance - Covered Bonds: Methodology And Assumptions For Analyzing Mortgage Collateral In Finnish And Norwegian Covered Bonds, Dec. 10, 2014
- Criteria - Structured Finance - Covered Bonds: Covered Bonds Criteria, Dec. 09, 2014
- Legal Criteria: Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Methodology: Credit Stability Criteria, May 03, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

RELATED RESEARCH

- New Issue: Sp Mortgage Bank PLC (Mortgage Covered Bond Program), Nov. 29, 2016
- Various Positive Rating Actions On Finnish Banks On Improved Economic Conditions, Nov. 17, 2016
- Global Covered Bond Characteristics And Rating Summary Q3 2016, Oct. 24, 2016
- Outlook Assumptions For The Finnish Residential Mortgage Market, Sept. 20, 2016
- Finland Outlook Revised To Stable On Gradual Economic Recovery; Ratings Affirmed At 'AA+/A-1+', Sept. 16, 2016
- Assessments for Target Asset Spreads According To Our Covered Bonds Criteria, Aug. 15, 2016
- Assessments for Jurisdictional Support According To Our Covered Bonds Criteria, July 20, 2016
- Covered Bond Monitor, June 26, 2015
- Covered Bond Monitor: Technical Note, Aug. 12, 2015
- What Factors Do We Consider When Analyzing Commingling And Account Bank Risk In Covered Bonds?, Nov. 26, 2012

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