

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

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OVERVIEW

- We have assigned our 'AAA' ratings to Sp Mortgage Bank's €500 million, five-year second issuance.
- We have also affirmed our ratings on the program and first issuance.
- Our ratings reflect our review of the program, including the second issuance 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 the stable outlook on Central Bank of Savings Banks.

LONDON (S&P Global Ratings) Oct. 24, 2017--S&P Global Ratings today assigned its 'AAA' ratings to Sp Mortgage Bank PLC's mortgage covered bond program's second issuance. At the same time, we have affirmed our 'AAA' ratings on the 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 specific stresses defined for Finland under our European residential loans criteria (see "Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans,"

published on Aug. 4, 2017).

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 (A-/Stable/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 issuer credit rating (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 the portfolio as of Aug. 31, 2017, the available credit enhancement of 19.08% exceeds the 17.71% credit enhancement that is commensurate with one notch of collateral uplift sufficient for a 'AAA' rating but does not cover any supplemental collateral uplift. The available credit enhancement has since increased, and as of Sept. 30, 2017, is 26.7%. This would be commensurate with a third notch of collateral uplift, allowing for two unused notches of collateral-based uplift, all other things remaining equal.

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

Our 'AAA' ratings on all of the issuances from this program are not constrained by legal, operational and administrative, counterparty, or country risks.

The stable outlook on our ratings on Sp Mortgage Bank's mortgage covered bonds reflects that on Central Bank of Savings Banks. We could lower our ratings on the covered bonds if Central Bank of Savings Banks were downgraded while collateralization returned to the level used for this analysis. Another downgrade scenario would be if the available credit enhancement were to

decrease below the overcollateralization that is commensurate with the covered bonds' maximum achievable ratings under our criteria.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

Our ratings are based on our applicable criteria, including our "Covered Bonds Criteria," published on Dec. 9, 2014.

However, the resolution regime analysis section of these criteria is under review (see "Request For Comment: Methodology For Incorporating The Effect Of Resolution Regimes Into Covered Bond Ratings," and "Request For Comment: Methodology For Assigning Financial Institution Resolution Counterparty Ratings," both published on Jan. 31, 2017).

As a result of this review, we may amend certain paragraphs of our covered bonds 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

- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 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: Covered Bonds Criteria, Dec. 9, 2014
- 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 3, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

RELATED RESEARCH

- Request For Comment: Methodology For Incorporating The Effect Of Resolution Regimes Into Covered Bond Ratings, Jan. 31, 2017
- Request For Comment: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, Jan. 31, 2017

- Global Covered Bond Characteristics And Rating Summary Q3 2017, Oct. 6, 2017
- Central Bank of Savings Banks Finland PLC, May 24, 2017
- Central Bank of Savings Banks Finland Long-Term Rating Up To 'A-' On Established Integrated Bank Group; Outlook Stable, April 28, 2017
- Finland Ratings Affirmed At 'AA+/A-1+'; Outlook Stable, March 17, 2017
- Sp Mortgage Bank Finnish Mortgage Covered Bond Program And Issuance Assigned 'AAA' Ratings; Outlook Stable, Nov. 29, 2016
- Outlook Assumptions For The Finnish Residential Mortgage Market, Sept. 20, 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: Technical Note, Aug. 12, 2015
- Covered Bond Monitor, June 26, 2015
- What Factors Do We Consider When Analyzing Commingling And Account Bank Risk In Covered Bonds?, Nov. 26, 2012

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