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# Transaction Update: POP Mortgage Bank PLC Covered Bond Program

**Primary Credit Analyst:**
Natalie Swiderek, Madrid + 34 91 788 7223; natalie.swiderek@spglobal.com

**Research Contributor:**
Vipul Sharma, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

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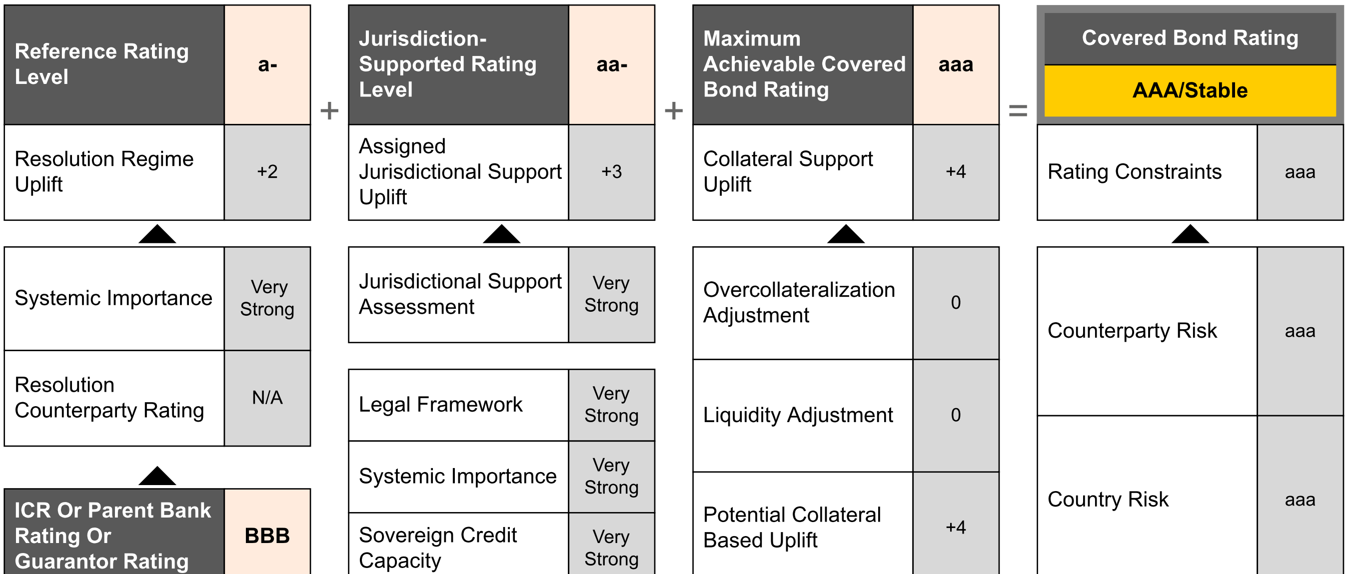
## Ratings Detail




*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. N/A--Not applicable.

## Major Rating Factors

### Strengths

- The cover pool is granular, comprising Finnish residential loans secured predominantly by owner-occupied properties.
- The structure features soft-bullet extendible maturities, which mitigates liquidity risk.
- The structure benefits from a public commitment by the issuer to maintain overcollateralization consistent with a 'AAA' rating.

### Weaknesses

- Concentration of mortgages in the West of Finland, which we have considered in our determination of default frequency.
- Cover pool payments received before an issuer insolvency could be commingled with the issuers' insolvent estate as these are not registered in the cover pool.

## Outlook: Stable

The stable outlook on the 'AAA' ratings on POP Mortgage Bank PLC's (POPMB) mortgage covered bond program and related covered bond issuances reflects the fact that an upgrade on our long-term issuer credit rating (ICR) on Bonum Bank PLC (BBB/Positive/A-2) would not result in an upgrade on the covered bonds, which are already at the highest rating level. In the absence of unused notches of ratings uplift, a revision to the outlook on the ICR on Bonum Bank to "negative" would, all else being equal, lead to a similar revision to the outlook on the ratings on the covered bonds.

## Rationale

This transaction update follows our periodic review of POPMB's covered bond program and related issuances.

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 POPMB's covered bond program and the Finnish covered bond legislation, we consider that the cover pool 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 rate the covered bonds higher than the long term ICR on Bonum Bank. The ICR on Bonum Bank reflects the franchise and the creditworthiness of the wider POP Bank Group.

POPMB is a part of the POP Bank Group, a statutory amalgamation of Finnish cooperative banks. The group includes 18 independent member cooperative banks, plus POP Bank Center Coop, Bonum Bank, and POPMB, to operate as a single entity for regulatory purposes under a joint-liability scheme. We conducted a review of POPMB's mortgage operations, which we view as prudent. We believe satisfactory procedures are in place to support the ratings on the covered bonds.

Following our resolution regime analysis, we determined a reference rating level (RRL) of 'a-'. POPMB is domiciled in Finland, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). We consider that mortgage covered bonds have very strong systemic importance in Finland. These factors increase the likelihood that an issuer 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 jurisdictional support for Finnish mortgage covered bonds, which we assess as very strong, resulting in three notches of uplift from the RRL.

Our collateral support analysis is based on the cover pool data as of June 30, 2023. The available overcollateralization of 35.1% (based on current loan balances) exceeds the target credit enhancement of 20.4%. The covered bonds are therefore 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 covered bonds' soft-bullet maturity mitigates liquidity risk.

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

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

## Program Description

**Table 1**

| Program overview* | |
|---|---|
| Jurisdiction | Finland |
| Year of first issuance | 2022 |
| Covered bond type | Legislation-enabled |
| Outstanding covered bonds (mil. €) | 500 |
| Redemption profile | Soft-bullet |
| Underlying assets | Finnish residential mortgage loans |
| Jurisdictional support uplift | 3 |
| Unused notches for jurisdictional support | 0 |
| Target credit enhancement (%) | 20.41 |
| Credit enhancement for current rating (%)§ | 17.60 |
| Available credit enhancement (current balance, %) | 35.08 |
| Collateral support uplift | 3 |
| Unused notches for collateral support | 1 |
| Total unused notches | 0† |

*Cash flows as of June 30, 2023. §Corresponding to 'AAA' credit risk plus 75% of refinancing costs. †There are no unused notches of ratings uplift given that if we were to lower our rating on Bonum Bank, we would also lower our ratings on the covered bonds as per our counterparty risk criteria, all else being equal (see "Counterparty risk").

POP Bank Group established POPMB to diversify its funding profile through the issuance of covered bonds and to support the group's mortgage lending growth. The covered bonds are issued under POPMB's €1 billion program set up in June 2022, for the issuance of covered bonds, and constitute its direct unconditional and unsubordinated debt obligations ranking pari passu among themselves.

The covered bonds are governed by the Finnish Act on Mortgage Banks and Covered Bonds (Laki kiinnitysluottopankeista ja katetuista joukkolainoista, 151/2022) "Covered Bond Act"; [CBA]), which provides for the issuer's regulation and supervision and establishes minimum requirements for the cover pool and the covered bonds (See "A Closer Look At Finland's Covered Bond Framework," Sept. 27, 2023).

Since the covered bond program's inaugural issuance in September 2022, POPMB issued its second €250 million fixed-rate covered bond in April 2023 (see "New Issue: POP Mortgage Bank PLC Covered Bond Program," Sept. 23, 2022). The covered bonds are supported by a cover pool with a current balance of €675.4 million of Finnish residential mortgage loans secured predominantly by owner-occupied properties. The covered bonds benefit from a 12-month maturity extension. The cover pool assets and covered bonds are euro-denominated.

The CBA enables POPMB to grant intermediary loans to member banks of the POP Bank Group. In return for the intermediary loans the group members must pledge eligible cover pool assets from their balance sheets to the cover pool as security for the covered bonds. POPMB must record these collateral assets in the cover register together with the intermediary loans. POPMB's cover pool comprises residential mortgages pledged by its group members to the cover pool as security for the covered bonds.

The program benefits from POPMB's commitment to maintain overcollateralization consistent with a 'AAA' rating.

POPMB entered into an interest rate swap with Nordea Bank Abp, to hedge the risk arising from the interest received on the floating-rate paying mortgage loans and the fixed-interest paying covered bonds.

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 because these collections are not segregated in the cover pool.

**POP Mortgage Bank covered bond program structure**

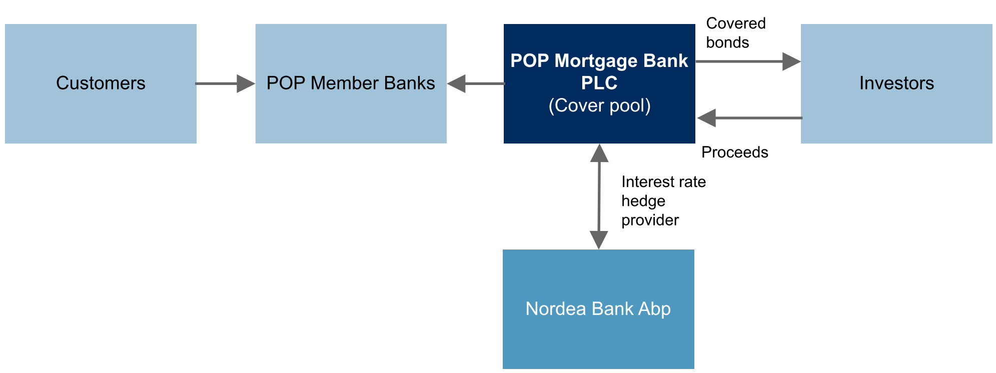





**Table 2**

**Program participants**

| Role | Name | Rating | Rating dependency |
|---|---|---|---|
| Issuer | POP Mortgage Bank PLC | NR* | Yes |
| Originator | POP 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 Bonum Bank to derive the ratings on the covered bonds. §Mortgage loan origination by member banks of the POP Bank Group. 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.

POPMB'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 satisfies the relevant legal aspects we assess under our covered bond criteria, specifically the cover pool assets' isolation from the risk of an issuer's bankruptcy or insolvency, so that covered bond payments continue on their scheduled dates (see "Covered Bonds Criteria," published on Dec. 9, 2014). This allows us to rate the covered bond program above the ICR on Bonum Bank.

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 bonds based on their legal final maturity.

The CBA requires issuers to have a license from the Finnish Financial Supervisory Authority (FIN-FSA) to engage in mortgage credit bank operations. Issuers 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 at least quarterly 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. They must also, according to their terms, remain in force despite the issuer's bankruptcy, liquidation, or resolution. Derivative counterparties benefit from the same statutory priority right as covered bondholders.

Pursuant to the CBA, a specialized mortgage credit bank can grant an intermediary loan to a credit institution belonging to the same consolidated group or amalgamation of deposit banks (group members) as the mortgage credit bank. Intermediate loans must be covered with eligible cover assets and the issuer must record these assets in the cover register. Once registered in the cover pool, they serve as collateral for the covered bonds for the benefit of the covered bond holders. We perform our analysis based on the underlying loans that are pledged as collateral for the covered bonds and form the cover pool.

Under the CBA, issuers must have 2% overcollateralization on a net present value (NPV) basis, or 5% on an NPV basis if the requirements of article 129 (3)(a) subparagraph 3 of the Capital Requirements Regulation are not fulfilled (in each case considering derivatives and estimated winding-down costs).

Under the CBA the cover pool must continuously contain sufficient substitute assets (liquid assets) to meet the maximum net outflow related to the covered bonds during the upcoming 180-day period. In calculating the net outflow, issuers may consider the extended maturity date of the covered bonds if the bond's terms provide for an extension.

Furthermore, the CBA allows for 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
- Such an 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 the management of the cover pool assets including their 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 the interests of covered bondholders with powers to direct the issuer's general administrator. 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 derivative transactions, and secure liquidity to fulfil the payment obligations related to the covered bonds.

We understand that under the CBA acceleration can only occur (upon the request or approval of the supervisor) if the total collateral amount requirements for the covered bonds cannot be met. The essence of the cover pool supervisor's role, which also applies in this instance, is to protect the covered bondholders' interests.

Upon issuer insolvency, covered bondholders and derivative counterparties 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.

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

### Operational and administrative risks

In our opinion, operational risk does not constrain the rating on the covered bonds to the same level as our rating on Bonum Bank.

We believe that a replacement cover pool manager would be available to manage the cover pool 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 POPMB's cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers or servicers.

POP Banking Group combines 18 independent member cooperative banks, plus POP Bank Center Coop (POPC), Bonum Bank, and POPMB, to operate as a single entity for regulatory purposes under a joint-liability scheme. POPC handles the group's steering and supervision in accordance with the Act on Amalgamations of Deposit Banks. It issues binding instructions on risk and capital adequacy management, corporate governance and internal control and sets business risk limits for the member banks.

POP Bank Group focuses on low-risk lending to private customers, lending to small and midsize enterprises (SMEs), and small agricultural and forestry clients in Finland. With a total loan portfolio of €4.5 billion as of the second quarter 2023, the group holds a small regional retail and SME franchise of about 2% nationwide in lending to households and total deposits. As of the second quarter 2023 it serves 257,500 customers, mainly focused on less urbanized low-growth areas, so that loans in the retail portfolio are moderately sized. The new strategy is to focus on the growth cities.

The POP Banking Group established POPMB to diversify the group's funding profile through covered bond issuances to support growth in its mortgage loan book. Its funding plans are an integral part of the cooperative group's funding strategy.

The typical loan granted to borrowers by POP Group's member banks is a EURIBOR-linked floating rate mortgage, with an LTV ratio below 70% and a repayment period of less than 25 years. POP member banks originate the mortgage loans directly using online applications and branch channels. The mortgages are granted in accordance with the group's lending instructions, which are set by the POPC risk control department. Customers income is verified through pay slips and/or taxation information. Affordability calculations are made for all customers, including stress testing at 6% interest and a maximum maturity of 25 years.

The FIN-FSA continues to focus on ensuring strict underwriting criteria for household lending. It applies an 85% cap on loan-to-collateral ratios on new mortgage loans and a 95% cap for first-time buyers. Borrower's ability to pay the loan and handle the regular living costs is stress tested with a 6% interest rate.

Overall, we believe there are sufficiently prudent underwriting and servicing procedures in place to support our rating on the covered bond. The low level of delinquencies observed in the mortgage book also supports our view.

Our analysis of operational and administrative risks follows the guidelines in our criteria (see "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015).

### Resolution regime analysis

POPMB 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 the RRL will be the greater of (i) the ICR on the issuing bank, plus two notches; 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. As Bonum Bank has no RCR assigned and given its 'BBB' long-term ICR, the resulting 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 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. The covered bonds therefore receive three notches of jurisdictional uplift over the RRL resulting in a JRL of 'aa-'.

### Collateral support analysis

We base our credit and cash flow analysis on loan-by-loan data and projected asset and liabilities' cash flow as of June 30, 2023.

Since the inaugural issuance in September 2022, the cover pool's current balance increased substantially to €675.4 million from €329.4 million. Compared to the inaugural cover pool, the current cover pool exhibits higher current loan to value ratios (weighted-average current LTV ratio based on current balances after indexation 62.8%, up from 52.7% previously) and a lower loan seasoning (weighted-average seasoning 5.8 years, down from 8.7 years previously). The cover pool remains granular and most of the mortgages are lent on owner-occupied properties located primarily in West Finland (about 65%).

The cover pool contains about 69% equal installment mortgage loans. However, the maturity on most of these loans can extend (from origination) if the interest rate is high enough to make up for the entire installment. We believe this maturity extension mitigates an immediate payment shock on the borrowers.

The share of loans in the cover pool that are in arrears is 0.39%.

The below tables provide an overview on the cover pool's composition.

**Table 3**

**Cover pool composition**

| | As of June 30, 2023 | | As of Sept. 13, 2022 | |
|---|---|---|---|---|
| **Asset type** | **Cover pool balance (mil. €)** | **Percentage of cover pool (%)** | **Cover pool balance (mil. €)** | **Percentage of cover pool (%)** |
| Finnish residential mortgage loans | 626.54 | 100 | 312.84 | 100 |
| Substitute assets | 0 | 0 | 0 | 0 |
| Other asset type | 0 | 0 | 0 | 0 |
| Total | 626.54 | 100 | 312.84 | 100 |

**Table 4**

**Key credit metrics**

| | As of June 30, 2023 | As of Sept. 13, 2022 |
|---|---|---|
| Average loan size (€) | 78,734 | 50,197 |
| Weighted-average effective LTV ratio (%)* | 66.37 | 56.01 |
| Weighted-average cover pool current LTV ratio (current balance, %) | 62.77 | 52.68 |
| Weighted-average loan seasoning (months)§ | 69.2 | 104.01 |
| Balance of loans in arrears (%) | 0.4 | 0.9 |

**Table 4**

## Key credit metrics (cont.)

| | As of June 30, 2023 | As of Sept. 13, 2022 |
|---|---|---|
| Buy-to-let loans (%) | 8.01 | 7.08 |
| Self-employed borrowers (%) | 15.34 | 18.47 |
| Credit analysis results: | | |
| WAFF (%) | 15.74 | 9.21 |
| WALS (%) | 25.17 | 18.91 |
| 'AAA' credit risk (%) | 9.15 | 4.82 |

*Effective LTV based on 100% current indexed whole loan LTV for the WAFF calculation. §Seasoning refers to the elapsed loan term. LTV--Loan to value. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

**Table 5**

## LTV ratios

| | As of June 30, 2023 | | As of Sept. 13, 2022 | |
|---|---|---|---|---|
| (%) | Effective whole-loan LTV ratio (%)* | Cover pool current LTV ratio (based on current balance, %) | Effective whole-loan LTV ratio (%)* | Cover pool current LTV ratio (based on current balance, %) |
| 0-40 | 13.74 | 15.99 | 26.23 | 29.22 |
| 40-50 | 9.71 | 11.06 | 12.02 | 13.73 |
| 50-60 | 12.9 | 14.42 | 14.17 | 15.26 |
| 60-70 | 16.07 | 17.26 | 16.24 | 16.62 |
| 70-80 | 17.02 | 18.14 | 14.88 | 13.04 |
| 80-90 | 15.54 | 13.48 | 9.28 | 8.26 |
| 90-100 | 10.63 | 8.72 | 5.27 | 3.88 |
| Above 100 | 4.39 | 0.93 | 1.9 | 0 |
| Weighted-average LTV ratios | 66.37 | 62.77 | 56.01 | 52.68 |

*100% of current indexed whole-loan LTV ratio. LTV--Loan-to-value.

**Table 6**

## Loan seasoning distribution*

| | As of June 30, 2023 | As of Sept. 13, 2022 |
|---|---|---|
| | Percentage of current pool balance (%) | Percentage of current pool balance (%) |
| Less than 24 months | 22.41 | 8.44 |
| 24-48 | 23.95 | 10.58 |
| 48-60 | 8.93 | 5.81 |
| 60-72 | 7.1 | 4.90 |
| 72-84 | 6.28 | 5.54 |
| 84-96 | 4.6 | 5.85 |
| 96-108 | 3.38 | 5.81 |
| 108-120 | 3.06 | 7.23 |
| More than 120 | 19.91 | 44.95 |
| Weighted-average loan seasoning (months) | 69.2 | 104.01 |

*Seasoning refers to the elapsed loan term.

**Table 7**

**Geographic distribution of loan assets**

| | As of June 30, 2023 | As of Sept. 13, 2022 |
|---|---|---|
| | **Percentage of current pool balance (%)** | **Percentage of current pool balance (%)** |
| Southern Finland (incl. Helsinki) | 12.25 | 10.72 |
| Eastern Finland | 5.92 | 1.31 |
| Western Finland | 64.88 | 73.91 |
| Oulu | 13.6 | 11.88 |
| Lapland | 3.33 | 2.18 |
| Aland | 0.02 | 0.00 |
| Total | 100 | 100 |

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 the Finland under our global RMBS criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

We then calculate the aggregate risk to assess the cover pool's overall credit quality. In order to quantify the potential losses associated with the entire pool, we weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance. The product of this weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged. As of June 30, 2023, we estimate a WAFF of 15.74% (9.21% previously) and a WALS based on the reported current loan balances of 25.17% (18.91% previously). We based these metrics on the 'AAA' credit stresses.

The portfolio's WAFF increased mainly due to the reduction in loan seasoning and higher effective LTV ratios. 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 ratio for the cover pool of 66.4%, as of June 30, 2023 (56% previously). This figure is based solely on current whole-loan LTV ratios. The negative effect of higher LTVs and lower loan seasoning on the WAFF is slightly mitigated by a reduction in the share of loans exceeding our regional concentration limit in West Finland (limit of 35%).

The increase in WALS reflects higher current LTV ratios after house price indexation. Our analysis currently considers that Finnish residential properties are slightly undervalued. The negative effect of higher current LTVs on the WALS is partially mitigated by the reduction in the share of loans backed by properties exceeding our jumbo valuation limits, which is due to our upward revision of the jumbo valuation limits for Finland under our criteria ("Global Methodology And Assumptions: Assessing Pools Of Residential Loans," Jan. 25, 2019).

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 'AAA' rating, to make timely payment of interest and ultimate principal to the covered bonds on their legal final maturity.

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 life of the covered bonds.

The 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 Finnish residential mortgage assets is 425 basis points, on top of the stressed interest rate at the time of the 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 that a percentage of the higher-yielding loans exit the portfolio. We also stressed basis risk.

By applying our credit and cash flow stresses, we calculate a target credit enhancement of 20.41%, below the available credit enhancement (based on reported current loan balances) of 35.08%, allowing for a potential four notches of collateral-based uplift above the JRL.

From this potential uplift, we make no deductions because we consider that the covered bonds' soft-bullet maturity mitigates short term liquidity risk. Furthermore, POPMB commits to maintaining an overcollateralization level commensurate with a 'AAA' rating. Therefore, the maximum collateral uplift is four notches above the JRL. The overcollateralization commensurate with a 'AAA' rating is 17.60%, equivalent to 'AAA' credit risk plus 75% refinancing costs.

**Table 8**

**Collateral uplift metrics**

| | As of June 30, 2023 | As of Sept. 13, 2022 |
|---|---|---|
| Asset WAM (years) | 10.31 | 6.49 |
| Liability WAM (extended maturity date; years) | 4.12 | 4 |
| Available credit enhancement (current balance) | 35.08 | 31.78 |
| Required credit enhancement for coverage of 'AAA' credit risk (%) | 9.15 | 4.82 |
| Required credit enhancement for first notch of collateral uplift (%) | 11.97 | 6.71 |
| Required credit enhancement for second notch of collateral uplift (%) | 14.78 | 8.60 |
| Required credit enhancement for third notch collateral uplift (%) | 17.6 | 10.49 |
| Target credit enhancement for maximum uplift (%) | 20.41 | 12.38 |
| Potential collateral-based uplift (notches) | 4 | 4 |
| Adjustment for liquidity (Y/N) | N | N |
| Adjustment for committed overcollateralization (Y/N) | N | N |
| Achievable collateral support uplift (notches) | 4 | 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 make their 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 could be exposed to commingling risk. This is because these collections are not segregated in the cover pool. We took this risk into account in our analysis considering the issuer's monthly overcollateralization reporting and assuming that half a month of collections are lost corresponding to the average exposure in the month preceding issuer insolvency.

### Swaps

The structure benefits from liability hedges with Nordea to hedge the interest rate risk arising from the variable interest paid by the assets and the fixed interest payable on the covered bonds. We consider these hedges in our cash flow analysis and model the covered bonds as floating rate-paying, corresponding to the floating rate of interest payable by POPMB to Nordea under the swaps.

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 rating 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 POPMB 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 Bonum Bank, we would also lower our ratings on the covered bonds, all else being equal. As a result, the program does not currently benefit from unused notches of ratings 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 factors have no material influence on our credit rating analysis of POPMB'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. POPMB 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
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- 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

## Related Research

- Bonum Bank Outlook Revised To Positive On POP Group's Improved Earnings Trajectory; 'BBB/A-2' Ratings Affirmed, Oct. 05, 2023
- A Closer Look At Finland's Covered Bond Framework, Sept. 27, 2023
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