

Bank of Aland PLC CBA Covered Bond Program, First Issuance Assigned 'AAA' Rating; Outlook Stable

March 16, 2023

Overview

- We assigned our 'AAA' ratings to Bank of Aland's CBA covered bond program and inaugural soft-bullet issuance.
- Our ratings reflect our review of the program under our covered bonds criteria and the fact that available credit enhancement exceeds the required credit enhancement for a 'AAA' rating.
- The stable outlook reflects the stable outlook on the long-term issuer credit rating on the issuer.

MADRID (S&P Global Ratings) March 16, 2023--S&P Global Ratings assigned its 'AAA' credit ratings to Bank of Aland PLC's CBA covered bond program and inaugural public issuance.

The CBA Covered Bonds from Bank of Aland are covered bonds issued under the Finnish Act on Mortgage Credit Banks and Covered Bonds (laki kiinnitysluottopankeista ja katetuista joukkolainoista, 151/2022) (the CBA; as amended or as replaced).

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 Bank of Aland's CBA covered bond program and the Finnish covered bond legislation, we consider that the assets registered in the cover pool 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 our long-term issuer credit rating (ICR) on Bank of Aland.

Based on our operational risk analysis, which covers a review of origination, underwriting, collection, and default management procedures, as well as cover pool management and administration, we believe satisfactory procedures are in place to support our ratings on the covered bond and the program.

Bank of Aland 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 Bank of Aland 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 our long-term ICR on Bank of Aland to determine the covered bonds'

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reference rating level (RRL) of 'a'.

We considered the likelihood of jurisdictional support. Based on a very strong jurisdictional support assessment for mortgage covered bonds in Finland and considering that the sovereign rating on Finland is AA+/Stable/A-1+, we assigned three notches of uplift from the RRL to determine the jurisdiction-supported rating level (JRL) of 'aa'.

Our collateral support analysis is based on the asset information as of Nov. 30, 2022. The €311.9 million cover pool (current balance) comprises Finnish residential mortgage loans. The current collateral (as of March 14, 2023) amounts to €311.0 million. The inaugural issuance is a €250 million soft-bullet covered bond with a three-year maturity and a fixed coupon of 3.875%. Based on our collateral support analysis, the available credit enhancement exceeds the target credit enhancement required for a 'AAA' rating, which means that the covered bonds are eligible for up to four notches of collateral-based uplift above the JRL. We do not reduce the total collateral-based uplift owing to Bank of Aland's commitment to maintain overcollateralization at a level sufficient for the maximum four-notch collateral-based uplift, or a 'AAA' rating on the covered bonds, and because we consider that the liability's soft-bullet structure mitigates short-term liquidity risk.

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

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

Environmental, social, and governance (ESG)

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
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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 alphanumeric 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 credit rating analysis of the Bank of Aland's CBA mortgage covered bonds. The issuer currently does not offer specific mortgage products focused on environment or social factors, which could affect the credit results. Bank of Aland is committed to maintain a minimum level of overcollateralization in the program commensurate with four notches of collateral-based uplift, or a 'AAA' rating. Additionally, the bonds' soft-bullet repayment structure mitigates 180 days of liquidity risk. The program's governance initiatives support the ratings assigned and the credit enhancement required for the rating.

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

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- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- New Issue: Bank of Aland CBA Covered Bond Program, March 16, 2023
- Bank of Aland PLC, Jan. 13, 2023
- Global Covered Bond Insights Q4 2022, Dec. 16, 2022
- Covered Bonds Outlook 2023, Dec. 6, 2023
- Bank of Aland PLC Upgraded To 'BBB+' On Increased Capital; Outlook Stable, July 13, 2022
- European Covered Bonds Reach Harmonization Milestone As The Journey Continues, July 12, 2022
- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Glossary Of Covered Bond Terms, April 27, 2018

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