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## Finland-Based Bank of Aland's Category SWE Covered Bonds Assigned 'AA' Ratings; Outlook Negative

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### OVERVIEW

- We have assigned our 'AA' ratings to Finland-based Bank of Aland's new issuance of covered bonds, which are backed by a Swedish mortgage cover pool under its €2 billion covered bond program.
- The size of the first issuance is SEK1 billion, under Bank of Aland's existing €2 billion program.
- The negative outlook on the program mirrors the outlook on the Bank of Aland.
- The ratings are based on our applicable criteria, some of which are currently under review.

FRANKFURT (Standard & Poor's) June 20, 2014--Standard & Poor's Ratings Services today assigned its 'AA' long-term credit rating to Finland-based Bank of Aland PLC's new "Category SWE Covered Bonds" issuance under its €2 billion covered bond program. The rating applies to the recent SEK1 billion new issuance of Finnish legislation-enabled covered bonds ("Kiinteistöväkkuudellinen joukkovelkakirjalaina") out of its existing program. The outlook is negative.

Under its €2 billion covered bond program, Bank of Aland maintains two separate cover pools, each backing a separate set of covered bonds. The "Category SWE Covered Bonds" are collateralized by a pool of Swedish mortgages, and the "Category FIN Covered Bond" issuances have a preferential

claim on a separate pool of Finish mortgage assets. Both sets of covered bonds are issued under the Finish Covered Bond Act. Our assigned ratings only refer to the "Category SWE Covered Bonds".

Our ratings address the timely payment of interest and principal on the "Category SWE Covered Bonds." We have applied our covered bond methodology and assumptions, as outlined in the criteria "Covered Bond Ratings Framework," published on June 26, 2012 on RatingsDirect.

The covered bonds are regulated under the Finish regulatory framework enacted July 2010, the Finish Covered Bond Act 688/2010. We consider that the Finish covered bond legal framework satisfies the relevant legal aspects of our covered bond ratings criteria, including the isolation of cover pool assets from the risk of the issuer's insolvency. This enables us to assign ratings to covered bonds that exceed the long-term issuer credit rating (ICR) on the issuer (see "Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," published Sept. 13, 2013). Furthermore, our legal analysis has identified potential set-off risk in the "Category SWE Covered Bonds" transaction. Our analysis reflects the issuer's intent to cover the amount at risk due to set-off using overcollateralization.

We have conducted a review of the bank's origination, underwriting, collection, risk monitoring, and default management procedures for its mortgage "Category SWE Covered Bonds" cover pool assets. In our opinion, the issuer has prudent underwriting and loan management policies.

We analyze the credit quality of the mortgage portfolio using our criteria "Criteria For Rating Swedish Covered Bonds," published June 20, 2006. The portfolio solely comprises Swedish residential and commercial mortgage loans, as classified by Standard & Poor's. The credit quality is in line with the assigned rating.

Under our asset-liability mismatch (ALMM) criteria, we calculate the maximum potential ratings uplift that the covered bond ratings can achieve from the long-term ICR on Bank of Aland (BBB/Negative /A-3) (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published Dec. 16, 2009). Under our criteria, we assess the ALMM risk as "low" and the program in Category 2. The level of available credit enhancement is greater than the level of credit enhancement that is commensurate with the maximum six notches of ratings uplift above the long-term ICR on Bank of Aland. As such, according ALMM criteria, the covered bonds can achieve a 'AA' rating. It is our understanding that the issuer intends to cover any cumulative liquidity needs within 180 days with eligible substitute assets at all times.

We have identified account bank risk to be relevant counterparty risks for the "Category SWE Covered Bonds." We consider that overcollateralization sufficiently mitigates these risks. Therefore, counterparty risks do not constrain the maximum achievable ratings on the covered bonds.

We consider the program to have "low" country risk, according to our nonsovereign ratings criteria (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011). Our criteria allow a maximum uplift of six notches for a covered bond program when we rate the sovereign investment-grade. As our long-term sovereign rating on Sweden is 'AAA' (unsolicited) and all of the underlying mortgages in the cover pool are based in Sweden, country risk does not constrain our ratings on the "Category SWE Covered Bonds."

The negative outlook on the "Category SWE Covered Bonds" reflects the negative outlook on Bank of Aland. If we were to downgrade the issuer, we would consequently downgrade the covered bonds, all else remaining equal.

We will soon provide a new issue report detailing our analysis of the covered bond program.

#### POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

Our ratings are based on our applicable criteria, including those set out in the criteria articles "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published June 14, 2011, "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 26, 2012. These criteria are under review (see "Request For Comment: Methodology And Assumptions For Ratings Above The Sovereign--Single Jurisdiction Structured Finance," published Oct. 14, 2013, and "Advance Notice Of Proposed Criteria Change For Covered Bonds," published April 29, 2014).

As a result of this review, our future criteria applicable to rating European covered bonds may differ from our current criteria. These criteria changes may affect the ratings on the mortgage covered bonds issued by Bank of Aland. Until such time that we adopt new criteria, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria And Research").

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Covered Bond Ratings Framework: Methodology And Assumptions, June 26, 2012
- Assessing Asset-Liability Mismatch Risk In Covered Bonds: Revised Methodology And Assumptions For Target Asset Spreads, April 24, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011

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- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Criteria For Rating Swedish Covered Bonds, June 20, 2006
- Cash Flow Criteria For European RMBS Transactions, Nov. 20, 2003

Related Research

- Advance Notice Of Proposed Criteria Change For Covered Bonds, April 29, 2014
- Request For Comment: Methodology And Assumptions For Ratings Above The Sovereign--Single Jurisdiction Structured Finance, Oct. 14, 2013
- What Factors Do We Consider When Analyzing Commingling And Account Bank Risk In Covered Bonds?, Nov. 26, 2012
- Covered Bond Monitor: Technical Note, Feb. 14, 2006

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