

Transaction Update: Bank of Aland CBA Covered Bond Program

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Ratings Detail

Reference Rating Level	a	+	Jurisdiction-Supported Rating Level	aa	+	Maximum Achievable Covered Bond Rating	aaa	=	Covered Bond Rating	
Resolution Regime Uplift	+2		Assigned Jurisdictional Support Uplift	+3		Collateral Support Uplift	+4		AAA/Stable	
Systemic Importance	Very Strong		Jurisdictional Support Assessment	Very Strong		OC Adjustment	0		Rating Constraints	aaa
Resolution Counterparty Rating	N/A		Legal Framework	Very Strong		Liquidity Adjustment	0		Counterparty Risk	aaa
ICR Or Parent Bank Rating Or Guarantor Rating	BBB+		Systemic Importance	Very Strong		Potential Collateral Based Uplift	+4		Sovereign Default Risk	aaa
			Sovereign Credit Capacity	Very Strong						

ICR--Issuer credit rating. N/A--Not applicable.

Major Rating Factors

Strengths

- The cover pool comprises prime Finnish residential mortgage loans for predominantly owner occupation.
- The program benefits from two unused notches of collateral-based uplift.
- The covered bonds' soft-bullet repayment profile mitigates short-term liquidity risk.
- The program's structure benefits from the issuer's public commitment to maintaining overcollateralization consistent with four notches of collateral-based uplift or a 'AAA' rating.

Weaknesses

- The pool exhibits a relatively high concentration in the Aland Islands, which we have considered in our determination of default frequency.
- The pool is less seasoned than other Nordic programs we rate, which we have considered in our determination of default frequency.

Outlook

S&P Global Ratings' stable outlook on the 'AAA' ratings on the Bank of Aland PLC's (Alandsbanken Abp) CBA mortgage covered bond program and related issuances reflects two unused notches of collateral-based uplift that would protect the ratings on the covered bonds if we were to lower our long-term issuer credit rating (ICR) on Bank of Aland (BBB+/Negative/A-2) by up to two notches, all else being equal.

Rationale

This transaction update follows our periodic review of Bank of Aland's CBA covered bond program and related issuances under Finland's Covered Bond Act, (CBA,151/2022; the "CBA Covered Bond Program").

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 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 allow us to rate the covered bonds higher than our long-term 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 covered bond program rating.

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' 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, 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 Jan. 31, 2024. The €696.9 million cover pool (current balance) comprises Finnish residential mortgage loans (99.20%) and substitute collateral (0.80%). Based on our collateral support analysis, the available credit enhancement exceeds the target credit enhancement, 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 due to Bank of Aland's commitment to maintaining overcollateralization at a level sufficient to obtain the maximum collateral-based uplift of four notches or a or a 'AAA' rating, and because we consider

that the liabilities' soft-bullet structure mitigates short-term liquidity risk. The achieved collateral support uplift is therefore four notches above the JRL, of which two are used to attain a 'AAA' rating leaving two unused notches of collateral support.

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.

Program Description

Table 1

Program overview*	
Jurisdiction	Finland
Year of first issuance	2023
Covered bond type	Legislation-enabled
Outstanding covered bonds (mil. €)	550
Redemption profile	Soft bullet
Underlying assets	Finnish residential mortgage loans and substitute assets
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	20.68
Credit enhancement for 'AAA' rating (second notch of collateral uplift, %)	13.55
Available credit enhancement (current balance, %)	26.70
Collateral support uplift	2
Unused notches for collateral support	2
Total unused notches	2

*Based on cash flows as of Jan. 31, 2024. §Level of credit enhancement required to cover 'AAA' credit risk plus 50% of refinancing costs.

Bank of Aland, established in 1919, is a regional Finnish bank providing retail, private banking, and asset management services to high-net-worth clients in selected areas in Finland and Sweden, with a strong presence in the Finnish region of the Aland Islands. The bank has a modest market share of 1% in Finland but holds a lead position in its wealthy but very small home region, Aland Islands, with an estimated loan market share of 50% in its core business of private and premium retail banking. As of Dec. 31, 2023, its total assets were €5.3 billion. The loan portfolio amounted to €3.9 billion and remains focused on retail lending (75% of the net loan book in Finland and Sweden).

Bank of Aland uses covered bonds to aid lending growth and diversify its investor base. Covered bonds represent about 11% of the bank's funding base as of Dec. 31, 2023.

This is Bank of Aland's second covered bond program. It was established in November 2022 to issue covered bonds under Finland's Covered Bond Act (CBA, 151/2022), effective since July 8, 2022 (see "New Issue: Bank of Aland CBA Covered Bond Program", March 16, 2023). The mortgage covered bonds are issued under Bank of Aland's €2.0 billion program for the issuance of senior preferred notes, covered bonds, tier 2 notes, and additional tier 1 capital notes.

Bank of Aland's first cover pool (cover pool FIN) was established in September 2012 and contains covered bonds

issued before the implementation of the EU Covered Bond Directive on July 8, 2022, under the Finnish Act on Mortgage Credit Bank Activities (MCBA, 688/2010) (the "MCBA Covered Bond Program"), which we analyze separately.

Separate registers are maintained for both cover pools in accordance with the CBA and MCBA. The covered bonds issued under the CBA Covered Bond Program rank *pari passu* among themselves but do not relate to the MCBA Covered Bond Program. Covered bondholders and derivative counterparties related to the CBA Covered Bond Program have a priority claim only on the assets registered in the CBA Covered Bond Program. Similarly, covered bondholders and derivative counterparties related to the MCBA Covered Bond Program have a priority claim only on the assets registered under the MCBA covered bond program.

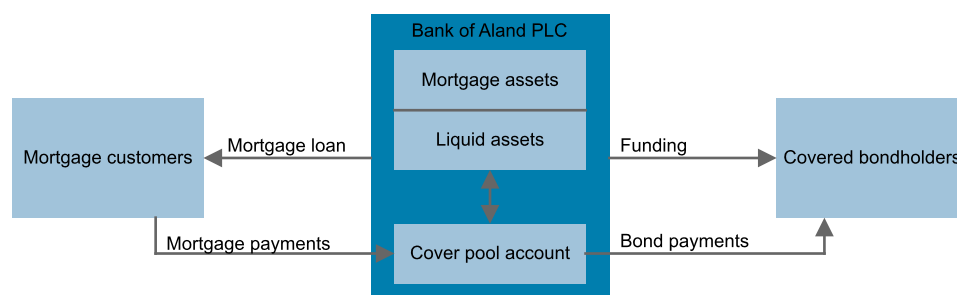
The covered bonds constitute direct unconditional and unsubordinated debt obligations of Bank of Aland and are secured by a cover pool of eligible residential mortgage loans and substitute assets registered in the cover pool, in line with the CBA.

Payments from the cover pool assets are collected in an account with Bank of Aland. These collections are only registered as part of the cover pool after the insolvency of the issuer. While this mechanism protects collections received from the cover pool assets post issuer default, funds standing or paid in the collection account pre-issuer insolvency could be exposed to commingling risk as they are not segregated in the cover pool. In the absence of structural mitigants, we have taken the associated counterparty risk into account when determining the required credit enhancement at a 'AAA' rating level.

No derivatives are registered in the cover pool to mitigate interest rate risk arising from differences in the interest payable on the cover pool assets (93.76% floating rate) versus the interest payable on the covered bonds (100% fixed rate paying). We have considered this in our cash flow modeling.

The covered bond ratings benefit from Bank of Aland's commitment to maintaining overcollateralization sufficient to achieve four notches of collateral-based uplift or a 'AAA' covered bond rating.

Bank of Aland CBA Covered Bonds



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Table 2

Program participants			
Role	Name	Rating	Rating dependency
Issuer	Bank of Aland PLC	BBB+/Negative/A-2	Yes
Originator	Bank of Aland PLC	BBB+/Negative/A-2	No
Bank account provider	Bank of Aland PLC	BBB+/Negative/A-2	No

Rating Analysis

Legal and regulatory risks

We base our legal analysis on our criteria "Asset Isolation and Special-Purpose Entity Methodology," published on March 29, 2017.

The covered bonds are governed by the CBA, which implemented the Covered Bond Directive into Finnish legislation. The CBA applies since July 8, 2022, and repealed the MCBA.

In our opinion, the CBA satisfies the relevant legal aspects of our covered bond criteria. We have concluded that the cover pool assets are effectively isolated for the benefit of covered bondholders (see "A Closer Look At Finland's Covered Bond Framework," published on Sept. 27, 2023). The protection of the assets and the continued management of the cover pool allow us to rate the covered bond program above the long-term ICR on Bank of Aland.

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 the legal final maturity.

The CBA requires issuers to have a license from the Finnish Financial Supervisory Authority (FIN-FSA) to issue covered bonds. Further, they 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 quarterly report the information in the register to the FIN-FSA.

The CBA defines the eligibility criteria for the cover pool assets that 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 pool 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.

Under the CBA, issuers must have 2% overcollateralization on a net present value (NPV) basis. This requirement increases to 5% on an NPV basis if certain requirements of article 129 of the Capital Requirements Regulation are not fulfilled.

Under the CBA, the cover pool must continuously include sufficient substitute assets (liquid assets) to meet the maximum net outflow connected to the covered bonds during the upcoming 180-day period. We understand that in calculating the net outflow related to the covered bonds, issuers may consider the extension of the maturity.

Under the CBA, an extension of the maturity of the covered bonds by up to 12 months is permissible, 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 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 oversee the management of the cover pool. 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 bankruptcy administrator.

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 (including termination fees) have a preferential claim to the assets in the cover pool, which would be isolated from the issuer's other assets.

Under the CBA, covered 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 set-off against cover pool assets and claw-back risk.

Operational and administrative risks

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).

Bank of Aland's prudent underwriting approach, its focus on high-net-worth individuals in its wealthy but small home region Aland Islands and in selected economically robust regions in Finland and Sweden, together with its strategy of engaging mainly in collateralized lending, translates into robust asset quality and low credit losses.

We reviewed its origination, underwriting, collection, and default management procedures for the cover pool assets. We also reviewed the cover pool management and administration and have not observed any major changes or new risks.

We consider Bank of Aland an established covered bond issuer, having set up its first covered bond program in 2012. For the issuer, covered bonds are an important long-term funding tool that help to diversify its funding mix and investor base. Bank of Aland is committed to maintaining overcollateralization for its cover pools at a level that allows the maximum collateral-based uplift of four notches above the JRL or a 'AAA' covered bond rating.

Bank of Aland sources mortgage cover assets through its branches and its partner affiliations. In Finland the issuer

grants home loans of up to 70% of the property's market value. Any amount exceeding the limit must be secured by additional collateral.

Credit decisions are made by the bank's customer advisers within established limits--both geographically and monetarily. Generally, the higher the loan amount, the more centralized the approval process. An evaluation of a borrower's ability to repay the loan, including cost of living and using a stressed interest rate, always precedes the granting of a loan. Income and employment verification is performed for all new customers, and credit office checks are part of the decision-making process.

The bank does not grant loans to borrowers on furlough schemes. Neither does it offer further advance to borrowers on a payment holiday. Loans in arrears are eligible to remain in the cover pool while non-performing and defaulted loans are excluded.

Properties are valued at loan origination by an independent evaluator. Values are monitored quarterly through an index check to establish any need for reevaluation.

The FIN-FSA continues to focus strongly on ensuring strict underwriting criteria for household lending. It implemented legislation mandating a 30-year maximum maturity for household mortgages. Moreover, it applies an 85% cap on loan-to-collateral ratios on new residential mortgage loans and a 95% cap for first-time buyers. A borrower's ability to pay the loan and handle their regular living costs is stress-tested with an interest rate of no less than 6%.

Overall, we believe there are sufficiently prudent and effective underwriting and servicing procedures in place to support our rating on the covered bonds. We also believe 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 that the mortgage loans in Bank of Aland's cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers or servicers.

Resolution regime analysis

Bank of Aland is domiciled in Finland, which is subject to the EU's BRRD. Under our covered bonds criteria, we assess the systemic importance for Finnish mortgage programs as very strong. This means the RRL will be the greater of (i) the ICR on Bank of Aland plus two notches and (ii) the resolution counterparty rating (RCR) on the issuing bank, where applicable. Because we do not assign an RCR to Bank of Aland, the RRL is 'a', two notches above the ICR.

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 risk if a bank resolution occurs. 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 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. Under our covered bonds criteria, the

covered bonds therefore receive three notches of jurisdictional support uplift from the RRL leading to a JRL of 'aa'.

Collateral support analysis

Our analysis of the residential mortgage loans is based on the specific adjustments defined for Finland under our global RMBS criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

We performed our analysis using loan-by-loan data and asset and liability cash flows projections provided by Bank of Aland as of Jan. 31, 2024.

Following Bank of Aland's second covered bond issuance--€300 million in January 2024--the cover pool has increased significantly. The cover pool, with a current balance of €696.86 million (€311.94 million previously), comprises Finnish prime residential mortgage loans (99.20%) and substitute assets (0.80%). On average, we note a higher loan seasoning, and marginally higher current whole loan-to-value (LTV) ratios compared to our previous analysis. The cover pool does not include loans to borrowers with a negative credit history. According to our analysis, 93.76% of loans pay a floating rate of interest, and approximately 90.6% of mortgage loans are amortizing.

We have determined a weighted-average cover pool current whole LTV ratio of 56.28% (55.52% previously) and a weighted-average seasoning of 4.43 years, up from 3.97 years previously. Exposure to loans backed by properties in the Aland Islands is 26.87% and exceeds our regional concentration limit of 1%. This attracts a 1.2x increase to their base foreclosure of 13% on the excess above the limit. Further, 28.82% (previously 33%) of the pool are buy-to-let loans (including those with no reported occupancy status). Loans to self-employed borrowers account for about 13% of the cover pool's current balance, which includes those where no employment status was available.

The cover pool contains 62% of fixed installment mortgage loans, which means that periodic installments are fixed for the entire duration of the loan. The maturity on these loans cannot be extended (from the one set at origination). Depending on the interest rate level, a higher or lower share of the fixed installment amount forms the interest portion, with the remaining part being the principal payment. Rising interest rates may lead to an accumulation of principal pending to be repaid on the loan's maturity date, which could create a payment shock for the borrowers. We considered this in our analysis by increasing the base foreclosure frequency for such loans by 1.2x.

Under the CBA, mortgage loans are included in the cover pool for their total value, while compliance with the regulatory overcollateralization requirement must be based on 80% of the market value of residential properties and 60% for commercial properties. Bondholders and derivative counterparties have a priority of payment right on 100% of the properties' value. We therefore determined the available overcollateralization on the entire current balance. At the same time, we also determined potential losses based on the entire current balance of the loans.

For the loans in the pool, we estimated the foreclosure frequency and the loss severity in a 'AAA' stress scenario and, by multiplying the foreclosure frequency by the loss severity, the potential loss associated with each loan. 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 the weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged. We assume that the probability of foreclosure is a function of both borrower and loan characteristics and

will become more likely--and the realized loss on a loan more severe--as the economic environment deteriorates.

Overall, our credit results have remained fairly stable. At a 'AAA' level of stress, the WAFF is 14.96% (previously 15.06%) and the WALs is 19.65% (21.38% previously). The combination of the WAFF and WALs as the measure of the cover pool's overall credit quality (expected losses: WAFF x WALs) has reduced to 2.94% from 3.22% previously.

The WAFF has remained stable, as the positive effects of a higher seasoning, and a lower share of buy-to-let loans have been partially offset by the slight increase in LTVs, geographic concentration, and loans to self-employed borrowers. The lower WALs is primarily driven by a lower share of loans backed by properties exceeding our jumbo valuation limits, in itself due to our increased jumbo valuation limits for Finland under our RMBS criteria. Our analysis currently considers the Finnish housing market as being slightly undervalued, by 2.0%.

The cover pool includes 0.80% of substitute assets comprising one unrated bond which we assume as defaulted in a 'AAA' stress scenario.

The below tables summarize the cover pool's composition.

Table 3

Cover pool composition				
Asset type	As of Jan. 31, 2024		As of Nov. 30, 2022	
	Value current balance (mil. €)	Percentage of cover pool	Value current balance (mil. €)	Percentage of cover pool
Residential mortgage loans (housing loans)	691.25	99.20	311.94	100.00
Substitute assets	5.60	0.80	0.00	0.00
Total	696.85	100.00	311.94	100.00

Table 4

Key credit metrics		
	As of Jan. 31, 2024	As of Nov. 30, 2022
	Residential mortgage loans	Residential mortgage loans
Average loan size (€)	156,605	148,615
Weighted-average effective LTV ratio (%) [*]	56.28	55.52
Weighted-average cover pool current LTV ratio (%) [§]	56.5	55.65
Weighted-average loan seasoning (years) [†]	4.43	3.97
Balance of loans in arrears (%)	0.21	0
Balance of loans above regional concentration threshold (%; Åland Islands)	25.87	23.97
Buy to let loans (%)	28.82	33.02
Balance of loans to self-employed borrowers (%)	13.07	5.33
Interest only loans to maturity (%)	9.42	10.19
Equal installment mortgages (%)	62	59
Credit analysis results:		
WAFF (%)	14.96	15.06
WALS (%)	19.65	21.38

Table 4

Key credit metrics (cont.)		
	As of Jan. 31, 2024	As of Nov. 30, 2022
	Residential mortgage loans	Residential mortgage loans
Expected losses (WAFF X WAL\$; %)	2.94	3.22

*The effective LTV corresponds to 100% of current indexed whole loan LTVs for the WAFF calculation. §Weighted-average current indexed LTV based on current balance. †Seasoning refers to the elapsed loan term. LTV--Loan to value. WAFF--Weighted-average foreclosure frequency. WAL\$--Weighted-average loss severity. N/A--Not applicable.

Table 5

Loan-to-value ratios				
	As of Jan. 31, 2024		As of Nov. 30, 2022	
Residential mortgages (housing loans, %)	Effective whole loan LTV (%)*	Cover pool current LTV (based on current balance, %)	Effective whole loan LTV (%)*	Cover pool current LTV (based on current balance, %)
0-40	20.67	20.42	20.81	20.77
40-50	13.27	13.20	16.79	16.13
50-60	20.14	20.05	19.84	20.37
60-70	23.06	23.03	22.13	22.08
70-80	11.74	11.88	9.10	9.32
80-90	7.62	7.82	7.46	6.20
90-100	3.11	3.19	3.87	5.13
Above 100	0.38	0.41	0.00	0.00
Weighted-average LTV ratio	56.28	56.50	55.52	55.65

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

Table 6

Loan seasoning distribution*		
	As of Jan. 31, 2024	As of Nov. 30, 2022
	Percentage of current pool balance	Percentage of current pool balance
>0 and ≤2years	33.03	47.24
>2 and ≤4 years	28.68	16.62
>4 and ≤5 years	6.53	6.98
>5 and ≤6 years	6.04	6.69
>6 and ≤7 years	5.1	3.8
>7 and ≤8 years	5.23	4.01
>8 and ≤9 years	2.72	2.01
>9 and ≤10 years	1.83	1.43
>10 years	10.63	11.21
Weighted-average loan seasoning (years)	4.43	3.97

*Seasoning refers to the elapsed loan term.

Table 7

Geographic distribution of loan assets		
	As of Jan. 31, 2024	As of Nov. 30, 2022
	Percentage of current pool balance	Percentage of current pool balance
South Finland (including Helsinki)	45.55	47.36
East Finland	0.08	0.11
West Finland	27.36	27.55
Oulu	0.13	0.00
Lapland	0.01	0.01
Aland	26.87	24.97
Total	100.00	100.00

The results of our credit analysis--the portfolio's WAFF and WALs--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 level, to make timely payment of interest and ultimate principal on the covered bonds on the 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 weighted-average life of the covered bonds.

The structure is exposed to an asset-liability maturity mismatch 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 adjustment applied for residential loans is 425 basis points, on top of the stressed interest rate at the time of the shortfall. Where cover pools contain buy-to-let mortgage assets exceeding 15% of the pool balance, we typically double the stressed refinancing spread assumption on the share of these loans that exceeds the threshold.

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 a percentage of the higher-yielding loans exit the portfolio.

Our 'AAA' credit risk of 6.42% (7.63% previously) shows the amount of overcollateralization commensurate with our credit risk assessment. Our target credit enhancement includes the additional credit enhancement that we expect is required to refinance the cover pool in a stressed environment. We calculate a target credit enhancement of 20.68% (24.07% previously), below the available credit enhancement of 26.70%.

Compared to our previous analysis, our cash flow results have improved due to lower WAFF and WALs and an increase in excess spread (the difference between the interest generated by the assets and the interest payable on the covered bonds). The reduction in asset-liability maturity mismatch has also contributed to the improved target credit enhancement.

We consider there is an active secondary market for the cover pool assets. Therefore, the program can potentially achieve four notches of collateral-based uplift above the JRL. As outlined above (see "Rationale") no deductions are made to this potential uplift, resulting in an achievable collateral uplift of four notches above the JRL.

With a JRL of 'aa', the program requires two notches of collateral uplift to attain a 'AAA' rating. The overcollateralization commensurate with a 'AAA' rating equals 13.55%--equivalent to 'AAA' credit risk plus 50% of refinancing costs. The covered bonds benefit from two unused notches of collateral-based uplift.

Table 8

Collateral uplift metrics		
	Cash flows as of Jan. 2024	Cash flows as of March 2023
Asset WAM (years)	10.47	10.48
Liability WAM (years)	3.93	4.00
Available credit enhancement (%)	26.70	24.41
AAA' credit risk (%)	6.42	7.63
Required credit enhancement for first notch of collateral uplift (%)	9.99	11.74
Required credit enhancement for second notch of collateral uplift (%)*	13.55	15.85
Required credit enhancement for third notch collateral uplift (%)	17.12	19.96
Target credit enhancement for maximum uplift (%)	20.68	24.07
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
Unused notches of collateral support uplift	2	2

*Required overcollateralization for 'AAA' rating. 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 and commingling risk

Borrowers make mortgage payments into Bank of Aland's bank accounts. These payments are only registered as part of the cover pool after the issuer's insolvency. 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 accounted for this risk 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.

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 these criteria, covered bonds backed by 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 of the covered bonds in this instance) exhibit low sensitivity to sovereign 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

Environmental, social, and governance (ESG) factors have a neutral influence on our credit rating analysis of 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 our 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 refinancing risk. These initiatives allow the program to achieve four notches of potential collateral-based uplift and reduce the required credit enhancement 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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