

Transaction Update: Bank of Aland PLC (Category SWE Mortgage Covered Bonds)

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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		Jurisdictional Support Uplift	+3		Collateral Support Uplift	+4		AAA/Stable
Systemic Importance	Very Strong		Jurisdictional Support Assessment	Very Strong		Overcollateralization Adjustment	0		Rating Constraints
Adjusted Issuer Credit Rating	bbb		Legal Framework	Very Strong		Liquidity Adjustment	0		aaa
GRE And Sovereign Support	0		Systemic Importance	Very Strong		Available Credit Enhancement	+4		Counterparty Risk
Issuer Credit Rating	BBB		Sovereign Credit Capacity	Very Strong					Country Risk
									aaa

Major Rating Factors

Strengths

- Very strong jurisdictional support
- High level of available credit enhancement compared with the overcollateralization required for the current rating.
- One unused notch of collateral based-uplift.

Weaknesses

- Commingling, bank account risk, and setoff risk that is not addressed either structurally or by the legal framework.
- The cover pool's assets comprise also 35.45% commercial real estate loans, according to our classification, which we consider to be riskier than residential real estate loans.

Outlook: Stable

The stable outlook on S&P Global Ratings' credit ratings on Finland-based Bank of Aland PLC's Category SWE mortgage covered bonds reflects that we would not automatically lower the ratings on the covered bonds if we were to lower the long-term rating on Bank of Aland by one notch. Under our covered bonds criteria, the program is eligible for four notches of uplift above the reference rating level (RRL), but currently requires only three notches to achieve a 'AAA' rating (see "Covered Bonds Criteria," published on Dec. 9, 2014).

Rationale

On April 25, 2016, we affirmed our ratings on Bank of Aland's SWE mortgage covered bond program and related issuances (see "Ratings On Finland-Based Bank of Aland's Category SWE Covered Bonds Affirmed At 'AAA' Following Review"). Our rating process follows the methodology and assumptions outlined in our covered bonds criteria.

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 to 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. Therefore, under our covered bonds criteria, we assess the RRL as 'a-'.

We considered the likelihood for the provision of jurisdictional support. Based on a strong jurisdictional support assessment for mortgage programs in Finland, we assigned three notches of uplift from the RRL. Therefore we assess the jurisdiction-supported rating level (JRL) as 'aa-'.

We have reviewed the asset information provided as of Dec. 31, 2015. The cover pool comprises Swedish residential and commercial mortgages. Based on our cash flow analysis, we believe that the available credit enhancement exceeds the required credit enhancement for a 'AAA' rating.

Lastly, the ratings on the program and related issuances are not constrained by legal, operational, country or counterparty risks.

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

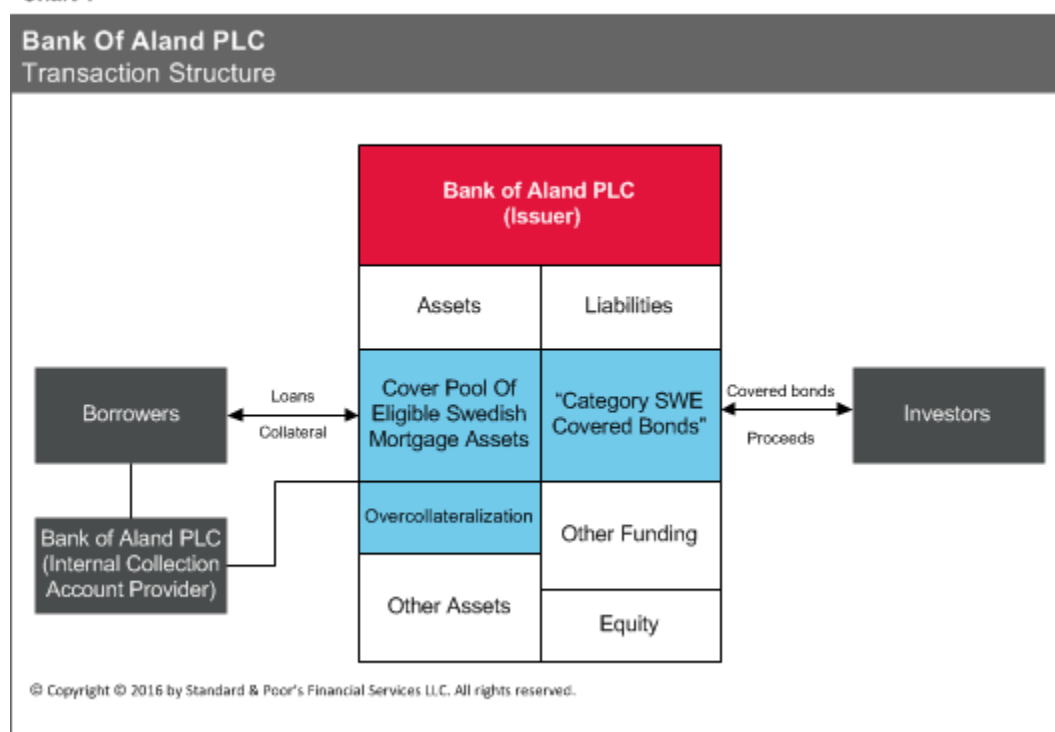
Program Description

Table 1

Program Overview*	
Jurisdiction	Finland
Year of first issuance	2014
Covered bond type	Legislation-enabled
Outstanding covered bonds (bn. SEK)	1.75
Redemption profile	Hard bullet
Underlying assets	Residential and commercial mortgages
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	39.85**
Available credit enhancement (%)	68.26
Collateral support uplift	4
Unused notches for collateral support	1
Total unused notches	1

*Based on data as of Dec. 31, 2015. **Given the JRL of 'aa-', overcollateralization that covers 'AAA' credit risk and 75% of refinancing costs or 32.93% of credit enhancement is required to achieve the 'AAA' rating.

Chart 1



Bank of Aland is a relatively small regional Scandinavian bank with a strong presence in the Finnish region of the Aland Islands. The bank's operations in Finland are concentrated in the Aland Islands and a branch network in southern and western Finland. The bank focuses on offering private banking to high-net-worth clients, complemented by operations in Sweden.

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 FIN" covered bonds have a preferential claim on a pool of Finnish mortgage assets, while the "Category SWE" covered bonds are collateralized by a separate pool of Swedish mortgages. Both sets of covered bonds are issued under the terms of Finnish Covered Bond Act. This transaction update covers the Category SWE covered bonds only.

The covered bonds constitute a senior secured unsubordinated obligation and rank pari passu with other obligations secured by the same cover register. In the event of bankruptcy, the pools would be separate and independent of each other.

Table 2

Program Participants			
Role	Name	Rating	Rating dependency
Issuer	Bank of Aland PLC	BBB/Negative/A-3	Yes
Originator	Bank of Aland PLC	BBB/Negative/A-3	No
Servicer	Bank of Aland PLC	BBB/Negative/A-3	No
Bank account provider	Bank of Aland PLC	BBB/Negative/A-3	Yes

Rating Analysis

Legal and regulatory risks

In our legal risk analysis, we applied our European legal criteria (see "Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," published on Sept. 13, 2013). The Finnish Covered Bond Act of 2010 sets out the legal framework for issuing Finnish covered bonds. In our opinion, the Finnish covered bond legal framework is in line with the relevant legal requirements of our covered bonds criteria. This enables us to rate the covered bonds above the long-term issuer credit rating (ICR) on the issuer.

If the issuer defaults, bondholders can initiate regular insolvency proceedings. In addition, under the Covered Bond Act, they have a preferential claim to a cover pool. The cover pool can comprise residential mortgage loans, commercial mortgage loans, public-sector loans, and substitute assets from European Economic Area countries.

Under the legal framework, the cover pool's assets must be registered in the issuer's cover pool, in order to be isolated from the issuer's other assets if it becomes insolvent. The issuer must report the information in the register to the Finnish regulator monthly. The register also includes the counterparties to derivative contracts, which must be able to survive the issuer's insolvency.

If the issuer were to become insolvent, the Finnish regulator would appoint a special cover pool administrator to supervise the covered bondholders' interests. If necessary, the administrator can sell assets or accelerate the payment of the covered bonds if it considers this to be in the bondholders' best interests, subject to Finnish regulatory approval.

To facilitate liquidity management, up to 20% of a mortgage cover pool can include substitute assets, such as state, municipal, or other public-sector/financial entities.

Under the Covered Bond Act, the issuer's bankruptcy would not result in the covered bonds' early redemption, or the suspension of payments to bondholders. Accordingly, we rate the covered bonds on the basis of their legal final maturity.

Operational and administrative risks

In June 2015, we conducted a review of the issuer's 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 arising. We consider that the issuer actively manages the cover pool and has strict underwriting and loan management policies.

Our analysis of operational and administrative risk follows the principles laid out in our covered bond ratings framework.

Resolution regime analysis

As part of our covered bonds criteria, our analysis considers any resolution regime in place in Finland to determine the RRL. As Finland is part of the EU and is required to implement the EU's Bank Recovery And Resolution Directive (BRRD), this analysis considers the support provided by its eventual adoption. As such, we assign two notches of uplift from the adjusted ICR, resulting in an RRL of 'a-'.

Jurisdictional support analysis

Under our analysis of jurisdictional support in our covered bonds criteria, we determine a JRL, which is our assessment of the creditworthiness of a covered bond program once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

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 covered bond programs is very strong (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Dec. 22, 2015). Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift from the RRL. This leads to a JRL for issuer's mortgage covered bonds of 'aa-'.

Collateral support analysis

We base our analysis on the loan-level data provided by the issuer as of Dec 31, 2015. The cover pool primarily comprises Swedish residential mortgages (64.55%) and commercial mortgages (35.45%).

Since April 2014, the weighted-average foreclosure frequency (WAFF) has increased to 28.08% from 20.41% and the weighted-average loss severity (WALS) has increased to 24.47% from 6.71%.

The increase in the WAFF and WALS is mainly the result of the application of our new commercial real estate covered bonds criteria.

There are no substitute assets included in this cover pool.

The tables below summarize the results of our collateral support analysis.

Table 3

Pool Composition				
Asset type (mortgage loans)	As of December 2015		As of April 2014	
	Value (SEK)	Percentage of cover pool (%)	Value (SEK)	Percentage of cover pool (%)
Residential assets (single family homes and condo apartments)	1,980,159,771	64.55	1,576,297,627	50.53
Commercial assets (multifamily housing and condo associations)	1,087,621,855	35.45	1,543,537,464	49.47
Total	3,067,781,626	100.00	3,119,835,091	100.00

Table 4

Key Credit Metrics		
	As of December 2015	As of April 2014
Weighted-average whole loan-to-value (LTV) ratio (%)	58.98	58.77
Weighted-average loan seasoning (months)*	24.48	14.00
Balance of loans in arrears (%)	0.00	0.18
Buy-to-let loans (%) (residential only)	0.83	0.88
Credit analysis results		
WAFF (%)	28.08	20.41

Table 4

Key Credit Metrics (cont.)		
	As of December 2015	As of April 2014
WALS (%)	24.47	6.71
WAFF x WALS (%)	6.87	1.36
Asset default risk (%)	12.33	4.48

*Seasoning refers to the elapsed loan term. SEK--Swedish krona. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Table 5

Pool Assets By Loan Size		
Residential		
	As of December 2015	As of April 2014
Loan size ('000 SEK)	Percentage of the residential mortgage loan cover pool (%)	Percentage of the residential mortgage loan cover pool (%)
0 to 500	3.04	0.82
500 to 1,000	8.57	2.97
1,000 to 1,500	14.9	7.42
1,500 to 2,000	15.2	8.07
2,000 to 2,500	15.86	11.25
2,500 to 3,000	15.6	8.95
3,000 to 3,500	7.79	7.98
More than 3,500	18.98	52.53
Commercial		
Loan size ('000 SEK)	Percentage of the commercial mortgage loan cover pool (%)	Percentage of the commercial mortgage loan cover pool (%)
0 to 500	0	0
500 to 1,000	0	0
1,000 to 1,500	0	0.19
1,500 to 2,000	0.55	0.08
2,000 to 2,500	0.44	0.25
More than 2,500	99.02	99.47

Table 6

Loan-To-Value Ratios		
Residential		
	As of December 2015	As of April 2014
Weighted-average whole loan LTV ratios (%)	Percentage of the residential mortgage loan cover pool (%)	Percentage of the residential mortgage loan cover pool (%)
0 to 50	23.16	20.27
50 to 60	19.73	12.71
60 to 70	25.38	20.41
70 to 80	25.76	32.50
80 to 90	5.86	13.02

Table 6

Loan-To-Value Ratios (cont.)		
90 to 100	0.12	0.46
More than 100	0.00	0.62
Commercial		
	As of December 2015	As of April 2014
Weighted-average whole loan LTV ratios (%)	Percentage of the commercial mortgage loan cover pool (%)	Percentage of the commercial mortgage loan cover pool (%)
0 to 50	25.67	33.79
50 to 60	11.72	10.79
60 to 70	42.20	38.01
70 to 80	20.41	15.02
80 to 90	0.00	1.53
90 to 100	0.00	0.86
More than 100	0.00	0.00

Table 7

Loan Seasoning Distribution		
Residential		
	As of December 2015	As of April 2014
Seasoning (months)*	Percentage of the residential mortgage loan cover pool (%)	Percentage of the residential mortgage loan cover pool (%)
Less than 18	37.55	73.20
18 to 60	62.45	26.40
Above 60	0.00	0.00
Commercial		
Seasoning (months)*	Percentage of the commercial mortgage loan cover pool (%)	Percentage of the commercial mortgage loan cover pool (%)
Less than 18	45.64	59.36
18 to 60	54.36	40.64
Above 60	0.00	0.00

*Seasoning refers to the elapsed loan term.

Table 8

Geographic Distribution Of Loan Assets		
Residential		
	As of December 2015	As of April 2014
Region	Percentage of the residential mortgage loan cover pool (%)	Percentage of the residential mortgage loan cover pool (%)
Götaland	30.81	21.19
Norrland	0.00	0.28
Svealand	69.19	78.53

Table 8**Geographic Distribution Of Loan Assets (cont.)**

Commercial		
Region	Percentage of the commercial mortgage loan cover pool (%)	Percentage of the commercial mortgage loan cover pool (%)
Göteborg	31.10	40.92
Norrland	2.44	0.00
Svealand	66.46	59.08

Table 9**Collateral Uplift Metrics**

	Dec. 31, 2015	March 31, 2015
Asset WAM (years)	18.17	17.98
Liability WAM (years)	3.57	5.07
Available credit enhancement	68.26	173.30
Required credit enhancement for first notch of collateral uplift (%)	19.10	N/A
Required credit enhancement for second notch of collateral uplift (%)	26.02	N/A
Required credit enhancement for third notch of collateral uplift (%)	32.93	N/A
Target credit enhancement for maximum uplift (%)	39.85	19.10
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	N	N
Collateral support uplift (notches)	4	4

WAM--Weighted-average maturity. N/A--Not applicable.

According to our covered bonds criteria, the maximum potential collateral-based uplift on a covered bond program above the JRL is four notches. We then look to make adjustments to the maximum collateral-based uplift by reviewing the coverage of six months of liquidity and the level of commitment for the overcollateralization. The issuer has a liquidity commitment and overcollateralization commitment published on its website that is in line with our criteria. Therefore, we do not adjust the collateral support uplift for liquidity or committed overcollateralization.

By applying our credit and cash flow stresses, we calculate a target credit enhancement of 39.85%. This is above the 19.10% target credit enhancement in April 2014. The increase is the result of the higher WAFF and WALs for mortgage assets and increased asset liability mismatch.

Given the JRL of 'aa-', overcollateralization that covers 'AAA' credit risk and 75% of refinancing costs is required to achieve the maximum rating. We calculate the credit enhancement needed to cover 'AAA' credit risk and 75% of refinancing costs at 32.93%. This is lower than the available credit enhancement of 68.26%.

Counterparty risk

We have identified several potential counterparty risks to which the covered bonds are exposed. However, these are either mitigated through structural mechanisms, or we have taken them into account in our modelling. Accordingly, we consider that they do not constrain our ratings on the covered bonds.

We have identified account bank and commingling risk as a relevant counterparty risk that is not addressed structurally or by law. We have considered the frequency of our access to information on the program's available credit enhancement to estimate the size of the account bank and commingling risk—currently 7.93% of the additional credit enhancement—and take the view that overcollateralization sufficiently mitigates this risk.

We have also identified setoff risk to be relevant for this transaction. As we believe that amounts exposed to setoff risk could potentially be unavailable to service the covered bondholders' claims, we have reduced the available credit enhancement by the amount at risk, currently by 4.97% available overcollateralization.

There are no derivatives registered in the cover pool.

Accordingly, counterparty risk does not constrain the maximum achievable ratings on the covered bonds.

Country risk

When applicable, we cap our ratings on mortgage covered bond programs under our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015). Given the current unsolicited ratings on Sweden (AAA/Stable/A-1+), our rating on the program is not limited by these criteria. We assess the program's sensitivity to country risk as moderate. Due to the absence of one-year liquidity coverage, we can rate the covered bonds three notches above the long-term rating on Sweden.

Related Criteria And Research

Related Criteria

- Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Covered Bonds Criteria, Dec. 9, 2014
- Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 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

- Ratings On Finland-Based Bank of Aland's Category SWE Covered Bonds Affirmed At 'AAA' Following Review, April 25, 2016
- Global Covered Bond Characteristics And Rating Summary Q4 2015, Dec. 29, 2015
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Dec. 22, 2015
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Dec. 22, 2015

- Bank of Aland PLC, Dec. 21, 2015
- Banking Industry Country Risk Assessment: Sweden, Dec. 8, 2015
- What Factors Do We Consider When Analyzing Commingling And Account Bank Risk In Covered Bonds?, Nov. 26, 2012

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