

S-Bank PLC CBA Covered Bond Program, First Issuance Assigned Preliminary 'AAA' Ratings; Outlook Stable

August 28, 2023

Overview

- We assigned preliminary 'AAA' ratings to S-Bank PLC's CBA covered bond program and expected soft-bullet issuance.
- Our preliminary 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 that there are no unused notches of ratings uplift and that a negative rating action on the issuer will result in a similar rating action on the covered bonds, all else remaining equal.
- The proposed cover pool comprises Finnish residential mortgage loans.

MADRID (S&P Global Ratings) Aug. 28, 2023--S&P Global Ratings assigned its preliminary 'AAA' credit ratings to S-Bank PLC's CBA covered bond program and its expected inaugural public issuance.

The covered bonds are issued under the Finnish Act on Mortgage Credit Banks and Covered Bonds (laki kiinnitysluottopankista 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 S-Bank's CBA covered bond program and 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 issuer credit rating (ICR) on S-Bank (BBB/Positive/A-2).

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 preliminary ratings on the covered bonds and the program.

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S-Bank 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 S-Bank 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 S-Bank 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 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 June 30, 2023. The €3.149 billion cover pool (current balance) comprises Finnish residential mortgage loans. The expected new issuance is €500 million soft-bullet covered bonds with an expected maturity of five years. 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 owing to S-Bank's expected commitment to maintain overcollateralization at a level sufficient for a 'AAA' rating on the covered bonds, and because we consider that the liability's soft-bullet structure mitigates short-term liquidity risk.

Legal, counterparty, or sovereign risks do not constrain the preliminary 'AAA' ratings.

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

The preliminary ratings are based on the latest information available to us as of the date of this publication. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Final ratings are contingent on our review of the final documentation. Alternatively, upon receiving the issued bonds' terms and conditions, the final ratings will not differ from the preliminary ratings if there are no material changes to the collateral composition, and the available credit enhancement continues to be at least equal to the overcollateralization commensurate with the ratings, all else being equal.

Environmental, social, and governance (ESG) factors:

ESG factors have no material influence on our credit rating analysis of S-Bank's CBA mortgage covered bond. The issuer currently does not offer specific mortgage products focused on environmental or social factors, which could affect the credit results. S-Bank is committed to maintain a minimum overcollateralization level in the program commensurate with a 'AAA' rating, and the soft-bullet repayment structure partially mitigates refinancing risk, allowing the program to achieve four notches of potential collateral-based uplift.

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

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

Related Research

- S-Bank PLC CBA Covered Bond Program, Aug. 28, 2023
- S-Bank PLC, Aug. 1, 2023
- Research Update: S-Bank PLC Outlook Revised To Positive On Improved Earnings Capacity And Strengthening Franchise; Affirmed At 'BBB/A-2', June 29, 2023
- Bulletin: S-Bank Gains Scale With Acquisition Of Handelsbanken's Finnish Retail Portfolio, June 1, 2023
- Covered Bonds Outlook Midyear 2023: Rising Interest Rates Will Test Asset Performance, July 19, 2023
- Global Covered Bond Insights Q3 2023: Strong Issuance Is Here To Stay, June 29, 2023
- Economic Outlook Eurozone Q3 2023: Short-Term Pain, Medium-Term Gain, June 26, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Norwegian And Finnish Covered Bond Market Insights 2023, April 18, 2023

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